Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE DEFENSE BUSINESS OPERATIONS FUND FOR FY 1993

Report No. 94-161 June 30, 1994

Department of Defense

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Acronyms

AAA	Army Audit Agency
ACRS	Appropriation Control and Reporting System
AFAA	Air Force Audit Agency
DBOF	Defense Business Operations Fund
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FFAS	Federal Financial Accounting Standards
GAO	General Accounting Office
GFM	Government-Furnished Material
IG	Inspector General
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
NAS	Naval Audit Service

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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June 30, 1994

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Consolidated Statement of Financial Position of the Defense Business Operations Fund for FY 1993 (Report No. 94-161)

We are providing this report for your information and use and for use by the Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," requires the Inspector General, Department of Defense, to express an opinion on the financial statements and report on the adequacy of internal controls and compliance with laws and regulations. We issued a draft report of Part II, "Internal Controls," and Part III, "Compliance With Laws and Regulations," on May 31, 1994.

We are disclaiming an opinion on the Consolidated Statement of Financial Position. Although we were able to evaluate internal controls and compliance with laws and regulations, we were unable to express an opinion on the Statement of Financial Position because of material internal control weaknesses and significant deficiencies in the accounting systems, which prevented the preparation of accurate financial statements. Also, we did not receive management or legal representation letters. Part I explains our disclaimer in more detail.

Part II discusses material weaknesses in controls involving Fund Balance With Treasury; Inventory Held for Sale, Net; Inventory Not Held for Sale; and Property, Plant and Equipment. Part III discusses noncompliance with laws and regulations pertaining to the same accounts. Separate audit reports were issued by the Service audit organizations to address the deficiencies noted in this report and make recommendations for corrective actions. We are also providing relevant appendixes (Part IV) for your use.

This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required. The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 604-9109 (DSN 664-9109), or Mr. John M. Seeba, Project Manager, at (703) 604-9134 (DSN 664-9134). The distribution of this report is listed in Appendix F. A list of audit team members is inside the back cover.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Audit Report No. 94-161 **June 30, 1994**
(Project No. 3FH-2009)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE DEFENSE BUSINESS OPERATIONS FUND FOR FY 1993

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of funds such as the Defense Business Operations Fund (DBOF, the Fund). The Fund was established as a revolving fund in FY 1992 and consists of various DoD Components. Functional and cost management responsibilities rest with the Military Departments and Defense agencies. The Comptroller of the Department of Defense is responsible for the management of the Fund's cash. A DBOF Corporate Board was established to develop, review, and coordinate all policies and procedures; implement Fund operating and capital investment goals; and oversee business performance. The DBOF financial statements for FY 1993 report total revenue of $84.4 billion, total expenses of $84.3 billion, and total assets of $116.9 billion.

Objectives. The objectives of the audit were to determine whether the Fund Balance with Treasury; Inventory Held for Sale, Net; Inventory Not Held for Sale; and Property, Plant and Equipment accounts as presented on the Statement of Financial Position of the Defense Business Operations Fund for FY 1993 were fairly presented in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We also determined whether internal controls over the Fund were adequate to ensure that the financial statements were free of material error and assessed compliance with laws and regulations for transactions and events that have a direct and material effect on the financial statements. In addition, we identified improvements to the financial statement process that could provide beneficial data to program managers and other users of the financial statements and followed up on conditions noted in our previous audit of the Fund's financial statements.

Scope and Methodology. For the FY 1993 financial statements, we limited our scope to four selected accounts on the Statement of Financial Position. The four accounts were the Fund Balance with Treasury reported at $4.7 billion; Inventory Held for Sale, Net reported at $79.7 billion; Inventory Not held for Sale reported at $9.2 billion; and Property, Plant and Equipment reported at $10.6 billion. Those accounts represent $104.1 billion (89 percent) of the total reported assets of $116.9 billion on the Statement of Financial Position. The statements were transmitted to us on May 4, 1994, and dated March 31, 1994 (see Part V for the financial statements).

Appropriate substantive tests were designed to test the system of internal controls. We evaluated the reliability of computer-processed information used in the reports by comparing amounts to source documents. Based on that comparison, insofar as we could determine, computer-processed information was not totally reliable.

We have not received management and legal representation letters from DBOF management. In providing those letters, DBOF managers would acknowledge responsibility for the fair presentation of the financial statements and provide information that may materially affect the statements. The representation letters are part of the evidential matter necessary to afford a reasonable basis for our opinion on the financial statements. The lack of representation letters is sufficient basis for a disclaimer of opinion, although other problems were the primary factors causing the disclaimer this year.

Independent Auditor's Opinion. We were not able to express an opinion on the Statement of Financial Position of the Defense Business Operations Fund as of September 30, 1993. Significant deficiencies in the internal control structure and noncompliance with required regulations caused our inability to express an opinion on the statement. Specifically, we were unable to determine the proper account values from the general ledger accounts, non-financial records, and yearend accounting adjustments. As a result, the asset balances presented on the financial statements could not be validated. Poor internal controls caused assets to be improperly classified, reported inventory balances to be incomplete, and financial records to be unreconciled. However, we noted some improvement over the past year in the general areas of accountability and control, DBOF structure, policy and procedures, and financial systems.

Internal Controls. Material internal control weaknesses existed in all four selected accounts. The Service audit organizations (the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency) could not validate the presentation of the Fund Balance with Treasury. That occurred because the Fund was assigned a single appropriation code that did not separately identify transactions by the Military Departments within the DBOF. The Service audit organizations also could not determine assertions such as completeness, existence, and valuation for both the Inventories Held for Sale, Net and Inventories Not Held for Sale accounts. Also, the two inventory accounts were valued using different pricing methods and also had significant misclassification of inventory items. The Services identified deficiencies with source documents, proper disclosure, and reporting of the Property, Plant and Equipment account. Part II contains our report on material internal control weaknesses.

Compliance With Laws and Regulations. Several instances of noncompliance with regulations materially affected the reliability of the DBOF financial statements. The Internal Management Control Program was the main area of noncompliance. The Defense Logistics Agency had not effectively implemented an Internal Management Control Program over the reporting of results for physical inventories. The Department of the Navy did not disclose in its Annual Statement of Assurance material internal control weaknesses and prepared inaccurate vulnerability assessments. In addition, the Air Force had material internal control weaknesses related to Inventories and to Property, Plant and Equipment that were not reported on its Annual Statement of Assurance. See Part III for further explanations of the noncompliances. Part IV, Appendix D, identifies the laws and regulations tested.

Management Comments. We issued a draft report of Part II, "Internal Controls," and Part III, "Compliance with Laws and Regulations," on May 31, 1994. No comments were received.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Independent Auditor's Opinion on the Financial Statements

Disclaimer of Opinion

We were not able to express an opinion on the Statement of Financial Position of the Defense Business Operations Fund (DBOF, the Fund) as of September 30, 1993. Significant deficiencies in the internal control structure and significant instances of noncompliance with regulations resulted in our inability to express an opinion on the statement.

We were unable to determine the proper account values from the general ledger accounts, non-financial records, and yearend accounting adjustments. As a result, the asset balances presented on the financial statements could not be validated. Poor internal controls caused assets to be improperly classified, reported inventory balances to be incomplete, and financial records to be unreconcilable. Also, the lack of management and legal representation letters added to the basis for our disclaimer.

Background

The Chief Financial Officers Act requires an annual audit of financial statements for revolving funds such as the DBOF. Preparation of the financial statements is the responsibility of the Defense Finance and Accounting Service (DFAS). Our responsibility is to express an opinion on those statements based on our audit.

Fund History. The DBOF was created by the Congress on October 1, 1991, by combining Defense- and Service-owned revolving funds previously called the stock and industrial funds. In addition, the DFAS, the Defense Commissary Agency, and three Defense Logistics Agency functions (the Defense Technical Information Center, the Defense Reutilization and Marketing Service, and the Defense Industrial Plant and Equipment Center) were added to the DBOF. Part IV, Appendix A, shows the reporting entities that make up the DBOF.

Functional and cost management responsibilities rest with the Military Departments and Defense agencies. The Comptroller of the Department of Defense (DoD Comptroller) is responsible for the management of DBOF cash. The DBOF reported revenues of $84.4 billion, expenses of $84.3 billion, and assets of $116.9 billion on its consolidated financial statements for FY 1993.

Fund Purpose. The Fund is intended to provide improved financial management tools and establish incentives to control resources with greater efficiency. Those tools will be used to identify the total cost of business operations related to the production of customer goods and services. The Fund management process was created to:

o foster a businesslike buyer/seller approach that enables the customer to make economical buying decisions and forces the seller to become more cost conscious;

o identify the full costs of items, measure performance on the basis of cost/output goals, and foster efficiency and productivity improvements;

o consolidate cash control and reduce required cash balances; and

o provide timely and accurate information to decisionmakers at all levels in order to measure business performance.

DBOF Improvement Plan. During FY 1993, the Secretary of Defense directed a review and evaluation of the implementation of the DBOF. A Steering Committee and an Expert Team, both composed of representatives of the various DoD Components, was assembled "to review, analyze, and report on policies and procedures already promulgated for the DBOF, the information available to business managers within the Fund, and the methodologies used to budget and execute the Fund's financial plan."

The results of the Expert Team's review presented to the Steering Committee and the Deputy Secretary of Defense indicated four general areas in which improvements were needed and why improvements were needed in each:

o accountability and control - to improve the overall effectiveness of the Fund and measurement of the results;

o DBOF structure - to ensure that the structure of the Fund is properly defined and appropriate business areas are included;

o policy and procedures - to provide adequate guidance for execution of the Fund and the mechanics for day-to-day operations; and

o financial systems - to improve, standardize, and modernize supporting financial systems to provided better management information.

DBOF Progress Report. The management of the DBOF has made some progress in the four areas. In the "Defense Business Operations Fund Implementation Plan Progress Report," February 1, 1994, the DoD reported several actions taken to improve the DBOF. Specifically, a DBOF Corporate Board was established to develop, review, and coordinate policies, procedures, and implementation. A Policy subcommittee was also established under the direction of the Corporate Board to address the significant policies requiring immediate development. The DoD Comptroller, through the Corporate Board, has issued decision papers on Military Pricing, Major Real Property Maintenance and Repair, Cash Management, Capital Purchasing, Mobilization Costs, Replacement Inventory, and Net Operating Results. Other policies and procedures are under development. The policies represent an important start in providing field managers with guidance they need to manage their operations and provide consistent application of accounting regulations within the DBOF.

The progress report also cites memorandums distributed to the field offices in order to reemphasize management's commitment to the success of the Fund. One of the largest problems facing DBOF involves financial systems. The Principal Deputy Comptroller rescinded the designation of Defense Business Management System as the financial migratory system in the first quarter of

FY 1994. Other systems are now being considered for implementation, with emphasis on standardizing the general ledgers, budget and accounting codes, and technical requirements documents. A 5-year action plan was also developed for improving all the accounting systems in the DoD.

Management was also committed to stabilizing the DBOF. The progress report also discussed the removal of the Air Force-peculiar transportation and Naval and Air Force laundries in FY 1995. By direction of the FY 1994 Authorization Act, the Defense Finance and Accounting Service and the Joint Logistics Systems Center will be retained for FY 1995.

Scope and Methodology

Statements Reviewed. We examined four selected accounts on the Statement of Financial Position contained in the Annual Financial Statement of the Defense Business Operations Fund for the year ended September 30, 1993. The four accounts were the Fund Balance with Treasury reported at $4.7 billion; Inventory Held for Sale, Net reported at $79.7 billion; Inventory Not held for Sale reported at $9.2 billion; and Property, Plant and Equipment reported at $10.6 billion. Those accounts represent $104.1 billion (89 percent) of the total reported assets of $116.9 billion on the Statement of Financial Position. Statement on Auditing Standards No. 62, "Special Reports," July 1989, requires that we express an opinion on the Consolidated Statement of Financial Position when we examine the majority of accounts comprising that financial statement. Additional accounts mentioned in this report were also reviewed when resources were available. The statements we reviewed were transmitted to us on May 4, 1994, and were dated March 31, 1994. See Part V for a copy of the financial statements.

Our audit did not examine all business entities of the DBOF. The excluded entities represent $4.7 billion of the $12.8 billion (11 percent of total assets of $116.9 billion) that was not reviewed. Generally accepted auditing standards require us to consider materiality and audit risk as part of our overall audit work. We do not believe that examining the excluded entities would have had an impact on our decision to disclaim an opinion. See Part IV, Appendix B, "Summary of Work Performed," for a list of entities examined.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, including the accompanying notes. Appropriate substantive tests were designed to test the system of internal controls.

Computer Processed Information. We evaluated the reliability of computer-processed information used in the reports by comparing amounts to source documents. Based on that comparison, insofar as we could determine, computer-processed information was not totally reliable. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We relied primarily on the audit efforts of the Service audit organizations (the

Army Audit Agency (AAA), the Naval Audit Service (NAS), and the Air Force Audit Agency (AFAA)). We believe that our combined audit efforts provide a reasonable basis for our results.

Representation Letters. We have not received management and legal representation letters from DBOF management. In providing those letters, DBOF managers would acknowledge responsibility for the fair presentation of the financial statements and provide information that may materially affect the statements. The letters are part of the evidential matter necessary to afford a reasonable basis for our opinion on the financial statements. The lack of representation letters is sufficient basis for a disclaimer of opinion. Ongoing discussions between the Office of the Inspector General and Comptroller staffs are expected to resolve procedural questions regarding representation letters, but not in time to affect the disclaimer on the FY 1993 statements.

Time Period and Locations. The audit was conducted from June 1993 to May 1994 at various offices of the Defense Finance and Accounting Service, the Defense Logistics Agency, and the Military Departments' business areas that are part of the DBOF. A complete list of organizations visited or contacted is in Part IV, Appendix E.

Auditing Standards

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, (IG, DoD), and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements. We relied on the guidelines suggested by the General Accounting Office and our professional judgment in assessing the materiality of matters impacting the fair presentation of the financial statements and related internal control weaknesses.

Accounting Principles

Accounting principles and standards for the Federal Government remain under development. The Federal Accounting Standards Advisory Board was established to recommend Federal accounting standards to the Director, OMB; the Secretary of the Treasury; and the Comptroller General; who are principals of the Joint Financial Management Improvement Program (JFMIP). Specific standards agreed on by those three officials are issued by the Director, OMB, and the Comptroller General.

Until accounting standards that will govern all aspects of financial statement reporting have been issued, which will constitute "generally accepted accounting

principles for the Federal Government," agencies are required to follow the hierarchy of accounting principles described in OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. The hierarchy constitutes an "other comprehensive basis of accounting" to be used for preparing Federal agency financial statements. A summary of the hierarchy defined and approved by the JFMIP Principals, follows:

- o standards agreed to and published by the JFMIP Principals,
- o form and content requirements of the OMB,
- o accounting standards contained in agency accounting policy guidance,

and

- o accounting principles published by other authoritative sources.

To date, three accounting standards have been published by the JFMIP Principals, so most accounting standards for the DoD's "other comprehensive basis of accounting" are contained in DoD accounting policy guidance. The DoD accounting guidance is primarily in the DoD 7220.9-M, "DoD Accounting Manual" (DoD Accounting Manual). During FY 1993, the DoD Comptroller updated portions of the DoD Accounting Manual and incorporated those sections into a new regulation, DoD 7000.14-R, "DoD Financial Management Regulation" (DoD Financial Regulation).

The DoD Financial Regulation will eventually serve as the single DoD-wide financial management regulation for use by all DoD Components for accounting, budgeting, finance, and financial management education and training. In the interim, unless superseded by published Federal accounting standards or requirements of the OMB, the policy contained in the DoD Accounting Manual or in the DoD Financial Regulation, as applicable, is the authoritative basis for preparing financial statements in accordance with an "other comprehensive basis of accounting."

Additional Information

Overview. We also reviewed the financial information provided in the Overview to the Defense Business Operations Fund for FY 1993. Such information has not been audited by us; accordingly, we do not express an opinion on that information.

Related Audits. The Inspector General (IG), DoD, has completed work on related audits of automated data processing systems that provide information to the DBOF financial statements. The "Application Controls Over Application Software Supporting the Navy's Inventories Held for Sale (Net)," audit (Project No. 3FD-2025) found that general application controls were good for the PX06 system except for a weakness in the test and production system that supports the PX06 application. If corrective action is taken on that weakness, information produced by the PX06 system would be reliable, based on the assumption that reliable data is input into the PX06 system.

The audit of "Application Controls Over Selected Portions of the Standard Army Intermediate Level Supply System" (Project No. 3FG-2020) found material internal control weaknesses over lack of reconciliations between the retail inventory system and the on-hand general ledger system and that asset visibility of in-transit inventories was not maintained. In addition, controls over access to software was inadequate and edit routines supporting the inventory software needed to be updated.

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Part II - Internal Controls

Introduction

We examined the internal control structure of selected accounts of the Statement of Financial Position for the Defense Business Operations Fund (DBOF, the Fund) for the year ended September 30, 1993. Those accounts were Fund Balance With Treasury; Inventory Held for Sale, Net; Inventory Not Held for Sale; and Property, Plant and Equipment. The statements we reviewed were transmitted to us May 4, 1994, and were dated March 31, 1994.

Management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the consolidating statements and any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General (IG), DoD, has identified as being significant for which compliance can be objectively measured and evaluated.

o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

o Questions are answered as to whether performance measures existed and whether those performance measures were adequate to enable the fund to fulfill its purpose.

Objective

Our audit objective was to determine whether controls over the selected accounts were adequate to ensure that the accounts were free of material error. In planning and performing our audit of the selected accounts for the year ended September 30, 1993, we considered its internal control structure, including implementation of a DoD Internal Management Control Program. The purposes of this evaluation were to:

o determine our auditing procedures for expressing an opinion on the financial statements and

o determine whether the internal control structure was established to ensure that the statements were free of material misstatements.

That determination included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For the purposes of this report, we classified the significant internal controls, policies, and procedures into the following categories:

o Fund Balance with Treasury: collections, disbursements, certifications, and reconciliations;

o Inventory Held for Sale, Net: inventory cycle, financial and inventory accounting cycle, and financial reporting cycle;

o Inventory Not Held for Sale: requesting, receiving, issuing/ disposal, and reporting; and

o Property, Plant and Equipment: requesting, receiving, issuing/ disposal, and reporting.

Prior Audit Coverage

Since the DBOF was formed in 1992, the General Accounting Office (GAO); the IG, DoD; and the Service audit organizations have conducted numerous audits. See Part IV, Appendix C, for a list of the prior audit reports. We summarized those audit reports by subject area because many of the reportable conditions were common among the reports. Below is a summary of the significant conditions identified during those audits. Corrective actions are noted.

Fund Balance with Treasury. The following are summaries of issues reported relating to the Fund Balance with Treasury account.

Policy Guidance and Accounting Procedures. The GAO reported that the DoD's ability to properly manage the Fund continues to be hindered because of DoD's inability to manage cash, develop policies and procedures, enhance financial systems, and produce accurate financial reports on the results of operations. The IG, DoD, reported that the Defense Business Operations Fund Implementation Plan established a milestone for issuance of a cash management policy for the DBOF by March 31, 1994. No such policy has been issued. The new policy is needed to ensure that responsibilities for management of cash are clearly delineated and that uniform accounting procedures are established.

Documentation and Recording. The IG, DoD, and the Service audit organizations reported that transactions were not properly recorded and accounted for because controls were inadequate, transactions were not recorded in a timely manner, or transactions were not reported properly. Assets were not safeguarded against loss from unauthorized use because of lack of supporting documentation. Transactions were not executed in compliance with existing guidance because financial data were not reconciled to ensure consistent reporting of the same information. In addition, weekly flash cash reports were unreliable, audit trails were inadequate, and a lack of uniform accounting systems and lack of a general ledger existed. Those conditions still exist, as noted in "Results of Audit" in this part of our report. In general, management concurred with the findings. Corrective actions are pending further review by management of the reported conditions.

Inventory Held for Sale, Net and Inventory Not Held for Sale. The following topics represent weaknesses found in prior audits of inventory accounts.

Valuation. The IG, DoD, determined that inventory valuation methods were not consistently applied throughout the business areas. For example, the Army's depot maintenance activities overstated the value of unserviceable and obsolete items by recording them at standard price. The Director, Defense Finance and Accounting Service (DFAS), agreed to revise guidance to assure the use of allowance accounts to offset the value of unserviceable or obsolete material. In addition, the Air Force Laundry and Dry Cleaning Service managers did not comply with Air Force Regulation 170-29, November 1990, requirements to report inventories at the lower of historical cost or fair market value. The Air Force agreed to notify plant accountants to value inventory using a first-in, first-out method.

Physical Inventory. The IG, DoD, was unable to reconcile physical inventories to account records. For example, the Defense Commissary Agency (DeCA) did not take sufficient physical inventories to determine the beginning or ending balances for FY 1992. The IG, DoD, suggested the DeCA perform physical inventories every 6 months; however, as of June 30, 1993, DeCA management nonconcurred but agreed to do annual physical inventories. As a result, the Comptroller of the Department of Defense (DoD Comptroller) ordered physical inventories to be taken at all DeCA stores to determine the inventory on hand and establish beginning balances. In addition, some Navy-managed direct material inventories were not periodically counted or, in some instances, were never counted. The Navy's inventory counting procedures were incomplete, unsound, and statistically invalid. The Naval Audit Service recommended the Navy use statistical sampling techniques and perform annual inventory counts. The Navy concurred; however, comments were not received in time to be included in the report.

Recording and Reconciling. The IG, DoD, stated that internal controls did not ensure that inventory general ledger balances agreed with subsidiary records as required by DoD 7220.9-M, "DoD Accounting Manual" (DoD Accounting Manual). The IG, DoD, issued an advisory memorandum to the DeCA that discussed processing problems in the automated data systems that resulted in unusual and misstated inventory account balances. The IG, DoD,

suggested that DeCA implement additional internal control procedures, including a procedure to compare daily store inputs to the actual posting to the financial records and maintain and reconcile inventory accounts. Management concurred with those suggested actions.

Some DFAS personnel misclassified depot maintenance and transportation inventory as Inventories Held for Sale. Recommendations were made to ensure the use of the correct general ledger accounts and to classify material correctly. Management agreed.

The reported value of Inventories Held for Sale was not supported because of problems in posting information to records and because the financial statement balances were taken from dates prior to September 30, 1992. Recommendations were made to require stock points to review and correct inventory discrepancies identified and discontinue the practice of early cut-off or make a footnote disclosure. Management nonconcurred with the recommendation requiring stock points to aggressively review and correct discrepancies. Management said stringent Stock Point Inventory Accuracy Officer requirements are already in place. Management concurred with the recommendation to discontinue early cut-off or make a disclosure.

The Air Force Audit Agency (AFAA) reported that the beginning inventory for Supply Management was inaccurate. Some items were included in inventory that should not have been and other items were excluded that should not have been. The auditors were unable to substantiate some balances.

Material in Transit and Material Returned for Credit. The DoD Accounting Manual states the Inventory in Transit account shall be kept under financial accounting control at all times. Also, entries to that account shall not be reversed at the beginning of the subsequent accounting period. Inventory in Transit and Material Returned for Credit accounts may be misstated because depots did not aggressively follow up to find out why transactions for items from suppliers were open or returns for credit were outstanding. Recommendations were made to reemphasize the need to conduct followup reviews of inventory in transit and returned and also to establish procedures defining conditions under which outstanding in-transit material should be written off. Management agreed in principle and stated that the DoD must define the criteria and authority for write-off of outstanding in-transit material and the DFAS must develop implementing guidance.

A lack of sufficient documentation and followup resulted in transactions remaining in an unmatched status for an extended period. The unmatched transactions occur when an issue transaction does not have a matching receipt or a receipt transaction does not have a matching issue. Recommendations to management included making a more aggressive review, pursuing followup action on unmatched in-transit transactions, and establishing a more realistic beginning date for aging in-transit items. Management concurred.

Negative Inventory in Transit. Negative in-transit balances existed in some accounts, which indicated more items or dollars were transferred out of the account than had ever existed. The negative balances on the Army's Standard Depot System may have occurred because unit prices increased before

an order was fully delivered. The recommendations to management were to research and correct negative balances before they are submitted as yearend data and to make a system change to update prices when changes occur. Management agreed and submitted an urgent system change request for the Standard Depot System to correct the problem.

Other negative inventory balances were caused by receipts not being posted to the proper account, amounts being posted that were greater than on-hand balances, and transactions from commercial contractors not being posted. Recommendations were made to develop and implement procedures to detect and correct negative inventory balances prior to including them in the financial statements. Management agreed in principle, but stated the DFAS would be responsible for any changes in procedures. Finally, there were negative asset balances for material in transit to contractors due to system reporting deficiencies. The recommendation to management was to process a computer system requirement document to require a comparison of contractor Government-Furnished Material requisition receipts reported by contractors. Management concurred, and an expected completion date is September 30, 1994.

Adjustments. The DoD Accounting Manual states adjustments to the general ledger accounts and the item property accountability records shall be supported and each recorded as a gain or loss. The DFAS Centers made journal voucher adjustments for inventory without coordinating the adjustments with Military Department personnel. Recommendations to Army management included performing detailed reconciliations to determine why differences existed between the general ledger and budget execution reports and to coordinate with the activities before adjusting general ledger account balances when preparing financial statements. Management agreed and is implementing procedures to reconcile at the departmental level; however, until new accounting systems with integrated general ledgers are deployed, no reconciliation to detail will be done.

The Naval Audit Service (NAS) recommended adjustments to Inventories Held for Sale, Net and to Inventories Not Held for Sale. In addition, the inventory control points processed adjustments to financial records to bring them into agreement with perpetual inventory records. Finally, insufficient procedures existed to produce accurate adjusting entries to yearend account balances and documentation to support those adjustments was lacking.

Government-Furnished Material. The DoD Accounting Manual states a subsidiary account shall be maintained for each contractor that receives Government-Furnished Material (GFM), and each account shall be subdivided by contract. One business area could not substantiate the amount of GFM on hand at contractor facilities because of improper journal voucher entries in the general ledger and unsupported write-offs of asset balances. The Material on Hand at contractor facilities account was adjusted to expense the entire balance of GFM because the financial systems could not provide a reasonable adjustment to the yearend balance. The business area management also wrote off GFM Material in Transit without performing adequate research and maintaining written documentation. Recommendations made to management were to correct accounting systems; however, management indicated the

corrections would have to come from the DoD. The DoD has taken initiatives to correct systems through the establishment of a financial operations initiative under the Corporate Information Management process.

Excess Inventory. The NAS found inventory in excess of requirements and inventory ready for reutilization or disposal were not properly handled as required by the "DoD Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity," January 12, 1994. That guidance requires inventory in the process of disposal or stock not expected to survive repair will be valued at 2.04 percent of the original acquisition cost. Also, stock levels were not always reviewed for excesses. Excess inventory was not reported at net realizable value, and managers were hesitant to get rid of material that might fill a future requirement. Many activities had increased their efforts to identify and dispose of material no longer needed. Recommendations to management were to identify potential excess for all the DBOF activities and include the excess in the financial statements at net realizable cash value. The recommendations are currently unresolved.

Property, Plant and Equipment. The following represent weaknesses identified in prior audits with the Property, Plant and Equipment account.

Depreciation. The IG, DoD, and the Service audit organizations reported that depreciation was either improperly reported or not reported at all. Internal controls were not sufficient to ensure that accounting for fixed assets and related depreciation were accurate. Army Depot Maintenance personnel did not accurately compute depreciation for fixed assets because personnel recorded incorrect information and because personnel did not have an accounting system that allowed them to compute depreciation. The Air Force Depot Maintenance Service did not depreciate capital assets because Air Force depreciation policy did not agree with the guidance memorandum issued by the DoD Comptroller.

Valuation. The IG, DoD reported that valuation methods of reporting assets on the financial statements were not consistently applied throughout the business areas. The value of property, plant and equipment was understated by $177.5 million on the Department of the Navy Consolidating DBOF Report on Financial Position for the year ended September 30, 1992. The Air Force Materiel Command could not substantiate $1.6 billion of property, plant and equipment. The Army Audit Agency identified $87.2 million that was not recorded on the financial statements as of September 30, 1992. Management agrees that fixed assets should be consistently valued and accurately reported on the statements, and as of September 30, 1993, corrective actions have been initiated but not completed for the Navy and Air Force, and have not been initiated for the Army.

Capitalization. Property, plant and equipment meeting the criteria for capitalization were not accurately capitalized. An asset should be capitalized and reported in financial statements when the acquisition cost or fair market value of the asset is $15,000 or more, and the asset has an estimated useful life to the DoD of more than 2 years. The Army Depot Maintenance business area did not properly capitalize $87.2 million of fixed assets. Fixed assets reported on the Navy's Consolidated Statement of Financial Position were capitalized in error or in the wrong amount and may not have been removed from the

financial statements after disposal. The Air Force Base Support business area did not accurately record, capitalize, and value fixed assets. As a result, the $5.7 million fixed asset balance may have been materially misstated. As of September 30, 1993, recommendations to capitalize all assets meeting capitalization requirements have been initiated but not completed for the Navy, the Army had not initiated corrective actions, and the status of Air Force corrective actions had not been reviewed.

Supporting Documentation. Documentation supporting the value of the Property, Plant and Equipment account on the financial statements was either insufficient or did not exist. In some instances, the problem occurred because personnel did not maintain records as required by the DoD Accounting Manual. As a result, the reported value of property, plant and equipment could not be supported. Therefore, historical cost and useful lives of fixed assets could not be verified. Management agrees that there is a lack of supporting documentation; however, further assessment of the impact is required before final corrective actions are taken.

Results of Audit

Our review of internal controls for the Fund disclosed material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We also identified conditions that we considered to be reportable under OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors or irregularities would be in amounts that would be material in relation to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their functions.

Material internal control weaknesses existed in each of the accounts reviewed. The following information explains specific weaknesses related to each account. Paragraph titles followed by an asterisk denote conditions that were reported in prior audits of the Fund.

Fund Balance With Treasury. Generally accepted accounting principles for Federal agencies are promulgated by the Comptroller General of the United States, and the Director, OMB. The statement of Federal Financial Accounting Standards (FFAS) No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, defines Fund Balances With Treasury as the aggregate amount of funds in the entity's accounts with the Treasury for which the entity is authorized to make expenditures and pay liabilities. Fund balances are

appropriation restorations, and allocations; transfers and reimbursements from other agencies; and collections credited to appropriation or fund accounts that the entity is authorized to spend or use to offset its expenditures. Fund balances are decreased by disbursements made to pay liabilities or to purchase assets, goods, and services; investments in U.S. securities; cancelation of expired appropriations; transfers and reimbursements to other entities or to the Treasury; and sequestration (money not released for use by the agency) or rescission of appropriation. For the fiscal year ended September 30, 1993, the Fund reported a Fund Balance With Treasury of $4.7 billion.

DoD Definition of Fund Balance With Treasury. The DoD definition of Fund Balance With Treasury is incomplete. The DoD Comptroller defines Fund Balance With Treasury as the difference between funds collected and funds disbursed during the year. It excludes key fund balances such as appropriations, transfers, suspense accounts, and fund transfers. In addition, the net of disbursements and collections does not represent future benefits to the DoD Components. In accordance with FFAS No. 1 and Financial Accounting Standards Board Concept Statement No. 6, "Elements of Financial Statements," December 1985, an asset is a probable future economic benefit controlled by the reporting entity that resulted from past transactions or events.

The purpose of reporting Fund Balances With Treasury as assets on the statements of financial position is that the balances represent the business areas' claims to Treasury funds that can be used to pay expenditures and liabilities. The net of collections and disbursements cannot be used to pay expenditures and liabilities because the balance is transferred to a central DoD account at the beginning of the next fiscal year. Expenditures and liabilities are paid from appropriations that are allocated to each business area at the beginning of the fiscal year.

The DoD Comptroller elected not to use the existing generally accepted accounting principles for Federal agencies' definition of Fund Balances With Treasury in reporting below the DoD level. Therefore, the assertion on the FY 1993 Statement of Financial Position for the Fund Balances With Treasury on September 30, 1993, is misleading because it was computed using the DoD definition instead of applicable generally accepted accounting principles.

Reconciliation. Two problems were identified that hindered reconciliations with the Fund Balance With Treasury account.

Reporting Entities. First, the Services do not have a mechanism to identify or reconcile their portions of the Fund Balance With Treasury account as those portions appear on the DoD Consolidated Financial Statements. When the Department of the Navy's Fund Balance With Treasury information was integrated with other DoD data, the Department of the Navy data could no longer be distinguished from other DoD data for reconciliation with Treasury records. Likewise, the Army Audit Agency (AAA) could not render an opinion on Fund Balance With Treasury at the Army level because fund balances are managed at the DoD level.

"DoD Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity" directs that the Fund Balance With Treasury

account be centrally managed. The guidance states that the U.S. Treasury shall maintain fund balances at the "97x4930" appropriation level. With the establishment of the DBOF on October 1, 1991, the revolving funds of all DoD Components were consolidated into a single entity. The Department of the Treasury eliminated the Service-unique Treasury codes and assigned the DBOF a single Treasury Code. Maintaining the Fund Balance at the appropriation level created the Services' inability to reconcile those amounts, and the Services are prevented from determining the appropriateness of the amount presented on consolidated financial statements.

Data Reliability.* A $1.88 billion discrepancy between the DFAS and the Defense Logistics Agency (DLA) records and $1.9 billion in collections and disbursements related to the DLA supply management business area could not be reconciled. An additional $24.7 million in collections and disbursements reported from the Appropriation Control and Reporting System (ACRS) for supply management were not identifiable to authorized limits. The OMB requires that differences resulting from time lags be reconciled and discrepancies resulting from errors be corrected when financial reports are prepared. However, reconciliations were not completed during FY 1993. As a result, the lack of reliable fund control data prevented the confirmation of the accuracy of amounts used to compile financial statement account balances such as Fund Balances With Treasury.

Adequacy of Audit Trails.* The IG, DoD, determined that DFAS controls and procedures did not provide adequate audit trails for DLA data. Relevant transactions needed to be identified, recorded in financial records, and summarized into financial statements. Those actions require use of an accounting system that tracks the recording of transactions from source documents through journals, ledgers, and trial balances to the financial statements. The process should also be traceable in reverse. The ACRS and its supporting automated systems did not maintain adequate audit trails to source documentation. Adjustments of $87.4 million made by the DFAS-Indianapolis Center to the FY 1993 data were not traceable to relevant source documents. As a result, adjustments were posted to the current period rather than to the period when the transactions occurred.

Matching Revenues With Expenses. Headquarters, DFAS, did not implement procedures to ensure that posting dates in the DLA's accounting records matched posting dates reported by the DFAS-Indianapolis Center. Under the matching principle of accounting, transactions should be reported in the period in which they occur. According to generally accepted accounting principles, discrepancies resulting from time lags are to be reconciled and errors corrected when financial reports are prepared. Recording, summarizing, and properly reporting errors and adjustments would produce more meaningful financial statements and reduce the risk of large reporting errors. Headquarters, DFAS, procedures did not require the DFAS-Indianapolis Center to make adjustments to the proper accounting period. In addition, the DFAS had not established the necessary controls to accurately report prior period adjustments to the yearend closing balances in the financial statements. Because of the misstatements, the financial statements do not reflect current operations, and comparability among accounting periods is hindered.

Disclosure of Known Deficiencies. The lack of reconciliations and corresponding discrepancies between ACRS and DLA accounting records were not adequately disclosed in the Statements of Cash Flow and the Footnotes to the financial statements. The primary purposes of the Statement of Cash Flow are to provide information about cash collection and disbursements made during FY 1993 and to show how cash changes that occurred in other financial statement accounts affected cash. The information in the ACRS was used to prepare the DLA financial statements, however the DLA accounting records differed significantly from the ACRS when they should have been the same. According to DFAS personnel, the DoD Accounting Manual allows them to post unreconciled differences between the two sets of records to the accounts receivable or accounts payable of the respective business areas' accounts. The adjustment would be valid only if differences were attributed to timing and those timing differences were validated through reconciliations between two sets of records. However, the DFAS-Columbus Center did not perform reconciliations or disclose the material differences between the two sets of records on the Statements of Cash Flows, which caused the statements of Cash Flow for the DLA to be misleading.

The DLA is responsible for the footnotes to its financial statements. Footnotes to the financial statements should provide information that enhances understandability. However, footnote disclosures often conflicted with the information presented in the principle statements. For example, footnotes related to supply operations and the Defense Reutilization and Marketing Service showed negative unobligated balances and significantly overstated invested capital. The negative unobligated balances implied that funds were overobligated.

Undistributed Collections and Disbursements. The Department of the Navy Defense Business Operations Consolidated Financial Statements materially misstated the balances of the Other, Non-Federal and Other Federal accounts. Those misstatements occurred due to improper posting of undistributed collections and disbursements to these accounts. DoD guidance requires that undistributed collections and disbursements be reported as adjustments to Accounts Receivable, Non-Federal and Accounts Payable, Non-Federal, not in the Other, Non-Federal and Other Federal accounts. As a result, these accounts were overstated by $1.8 billion and $362.0 million, respectively. Further, Department of the Navy DBOF activity data submissions did not distinguish collections from disbursements, which prevented the Naval Audit Service from determining the total impact of the undistributed transactions on Accounts Receivable, Non-Federal and Accounts Payable, Non-Federal.

Inventory Held for Sale, Net. The Inventory Held for Sale, Net account represents tangible personal property held for sale in the ordinary course of business or that is in the process of production for eventual sale. The ending value of the inventory was $79.7 billion on the FY 1993 financial statements. The definition of Inventory Held for Sale, Net excludes stockpiled inventory or goods held for consumption. The inventory items are segregated between inventory accounts based on purpose. For example, a tire may be an item held for sale at a depot and at the same time be stockpiles or held for consumption by the end user.

Physical Inventory Counts.* Physical inventory count quantities were not always reported to the DLA supply activities or were not recorded correctly. The dollar value of the DLA items sampled was $280.8 million and for the items sampled, a net loss of $3.3 million (losses of $17.7 million and gains of $14.4 million) occurred. The Air Force data submitted for the statistical sample excluded retail inventory. The AFAA statistically sampled $8.3 billion in inventory and found $382.7 million in errors. The AAA sample for inventory included items that were not part of the DBOF (valued at $812.0 million) and excluded items that were part of the DBOF (value unknown). The NAS reported that sampled items valued at $2.3 billion included overstated inventory of $34.5 million and understated inventory of $32.0 million, for a net dollar effect of $2.5 million.

Recording and Reconciliation.* The IG, DoD, could not assess the completeness of the DLA accounts because subsidiary records were inaccurate or were not available for review. The AAA identified a difference of $25.6 million between the general ledger and the subsidiary accounts for work in process at the depot maintenance business area. The AAA found that depot maintenance activities did not have adequate controls to ensure that $23.5 million recorded as due-in from suppliers was valid. The purchasing activities had paid for the inventory, but had not recorded the receipt in the financial records. The AAA also determined that approximately $81.0 million in transaction rejections were not sufficiently researched or promptly corrected by the logistics and finance personnel at the wholesale activities.

In-Transit Accounts.* The DLA in-transit accounts (total value of $248.9 million) for procurements, transfers between storage locations, and from customer sales returns had $10.4 million recorded as in-transit from 181 to 360 days and $25.4 million in transit more than 360 days. Some of the problems identified with in-transit accounts included invalid transactions because material was received under a wrong contract line; was received, paid for, and subsequently returned to the contractor; or material was shipped and dropped at one storage location but not recorded as a receipt at the receiving location. Also, customer sales returns transactions were recorded incorrectly and due-ins were not canceled or reversed in a timely manner. The AAA determined many transactions were invalid because storage depots had received the material but the activities had not recorded the receipts in the financial records. That weakness caused material to be double-counted. Also, when contract numbers were not used for recording the in-transits from procurement, the account was not cleared. The AAA determined that a significant number of claims for material returned for credit that totaled $2.2 billion were invalid, and some transactions caused duplicate reporting. The NAS determined that the Naval Supply Systems Command did not post receipts and correct unit prices, which caused Material in-Transit records to be overstated by $28.6 million. The Command did not research the stock-in-transit account for the aviation depot level consumables and repairables material, which contained $65.2 million in invalid transactions and $179.4 million in transactions that were at least 18 months old.

Valuation.* The DLA financial statements presented $5.1 billion for reutilization and marketing inventory. That amount for FY 1993 was actually the ending balance for August 31, 1992. The IG, DoD, determined the DLA

reutilization and marketing inventories were overvalued on the financial statements by about $5.0 billion because the material was valued at standard price instead of net realizable value. In addition, other valuation problems occurred because items transferred among logistics installations were valued at the standard price by the losing inventory manager rather than the latest acquisition cost. The AAA found the activities valued all inventory at standard price instead of latest acquisition cost.

Classification. The DLA Base Operating Supplies valued at $18.0 million were classified as Inventory Held for Sale by the Supply Management business area, but $10.5 million of that amount should have been presented on the Distribution Depot business area. War Reserve Material valued at $1.8 billion was also included in Inventory Held for Sale but should have been on the Inventory Not Held for Sale line on the financial statements.

Government-Furnished Material and Loaned Assets. The Air Force reported $112.0 million in loaned assets and $848.0 million in assets at contractor repair facilities. Those assets, however, were not recorded correctly in the general ledger accounts and could not be reconciled to the accountable records. The loan officers were not required and did not reconcile loan agreements to contractor records. The AFAA could not verify the accuracy of over $80.0 million in loaned assets. Tests on 11 contractors' records showed $1.1 million of loaned assets that were not on the loan officers' control records. In addition, one loan agreement showed 44 assets valued at $24.0 million; however, the loan officers' accounting records indicated 24 loaned assets valued at $13.1 million, and the loan agreement folder had documentation supporting 22 loaned assets valued at $12.0 million. The AAA determined that Government contractors reported GFM valued at $16.7 billion; however, the combined amount of GFM in the Army General Fund and DBOF financial statements was $10.7 billion. The Army did not have systems in place to determine what portion of the $6.0 billion variance belonged to the Army and what portion to the DBOF. Moreover, such laxity in controls can subject the assets to loss.

Adjustments.* The AAA reported that wholesale and retail activities adjusted financial records by approximately $4.0 billion to match logistical records without researching the differences or trying to determine the causes for the variances. The AAA determined that the DFAS made adjustments to the general ledger balances without adequately coordinating adjustments with the Army, referencing individual transactions to support the adjustments, or identifying the explanations for the adjustments.

Inventory Not Held for Sale. The Inventories Not Held for Sale, Net line item for the DBOF on the Principal Financial Statements for FY 1993 represents materials and goods held for future agency consumption or stockpiled for use in national emergencies or for other purposes. The ending value of the inventory was $9.2 billion on the FY 1993 financial statements. That inventory is not for sale to customers during the ordinary course of business, but for use by the end user.

Physical Inventory Counts.* The NAS concluded that the physical inventory counting procedures and statistical sampling plans used by

Department of the Navy DBOF activities to assess the accuracy of Inventories Not Held for Sale were incomplete, unsound, and statistically invalid. The NAS reported an inventory error rate of about 11 percent for the activities tested throughout FY 1993. A statistical sampling technique used to test the yearend balances, however, found a 40 percent error rate (an overstatement of $2.4 million and an understatement of $2.6 million). The review identified instances where inventories were not counted periodically or, in some instances, were never counted. Also, the dollar impact on the Navy inventory financial records could not be projected because the activities used attribute sampling (items) which is not based on inventory value (dollars).

Recording and Reconciling.* Completeness of the DLA inventory accounts could not be assessed. That situation occurred for both Inventories With Contractors and Test Facilities and Inventories in Process or Assembly/Disassembly because subsidiary records were inaccurate or unavailable for review. The accounts were valued at $75.4 million and $49.6 million, respectively. In addition, DLA personnel were unable to provide copies of a quarterly subsidiary report to verify the Inventory Temporarily in Use account, which was valued at $0.9 million.

Negative Balances.* DLA Inventories With Contractors and Test Facilities account had differences that affected the inventory records. An evaluation of $60.7 million out of the $75.4 million account balance, showed positive amounts of $108.1 million and negative amounts of $47.5 million. Inventory accounts should not have negative balances.

In-Transits. A separate sample of the Navy Material-in-Transit records valued at $13.7 million found invalid records valued at $12.0 million (88.6 percent). The auditors projected that the financial statement was overstated by $24.8 million, plus or minus $661,988. Negative-value records, however, caused understatements totaling $5.3 million. The result was a net overstatement for Material-in-Transit of $19.5 million.

Classification. DLA Base operating supplies were valued at $18.0 million, of which $7.5 million located at supply centers and $10.5 million located at distribution depots were incorrectly categorized as Inventory Held for Sale. The supplies were incorrectly categorized as inventory Held for Sale and were attributed solely to the supply management business area instead of split between the supply management and distribution depots business areas in the amounts noted above.

Additionally, war reserve material and unserviceable material were included in Inventory Held for Sale instead of being classified as Inventory Not Held for Sale. Based on wholesale supply records, $1.5 billion of fuel inventory and $269.0 million of subsistence inventory were held as war reserve material. Litigation inventories valued at $59.6 million were also improperly categorized as Inventories Held for Sale, and the restrictions were not fully disclosed. Litigation inventories are those being held pending the outcome of litigation or the negotiation of disputes with contractors or common carriers.

Defense Accounting Office personnel incorrectly capitalized organic general and administrative costs to the Work-in-Process asset accounts with the Air Force

Depot Maintenance Service. The Depot Maintenance Service prematurely removed capitalized costs from the work-in-process account, thereby misstating the balances by about $5.8 billion; incorrectly capitalized over $247.0 million of general and administrative expenses into the organic work-in-process asset account; and incorrectly capitalized about $311.0 million of estimated costs and general and administrative expenses in the contract work-in-process accounts. The Air Force Materiel Command could not support the $2.4 billion Inventory Not Held for Sale balance and the DBOF Air Mobility Command did not include as much as $567.7 million of Inventories Not Held for Sale on the financial statements.

War Reserve Assets. The AAA could not verify the accuracy of war reserve assets. War reserve assets represented about 79 percent of the $2.7 billion account balance. Specifically, personnel from the Office of the Deputy Chief of Staff for Logistics, the Department of the Army, and the DFAS-Indianapolis Center used several reports (for example, stratification reports) to compute war reserve assets. Additionally, storage depots differentiate inventory by condition code. They do not store and account for inventory by purpose code (for example, war reserve). The sample data base did not identify the purpose of the on-hand assets; therefore, war reserve inventory was comingled with peacetime inventory for reporting purposes. Also, separate audits for FY 1993 disclosed accountability problems with war reserve assets. For example, the AAA report on the audit of War Reserves, Southern European Task Force, identified activities that did not adequately account for, or effectively manage, war reserves. In addition, Audit Report NR 94-300, "Management of Equipment and Repair Parts," May 3, 1994, issued by the 21st Theater Army Area Command, identified inadequate accounting for repair parts (including war reserve stocks).

Valuation. Excess material was not properly valued at the prescribed 2.04 percent of latest acquisition cost. The result was an overstatement of $49.2 million by the Navy for Inventories Not Held for Sale because excess inventory was not written down to net realizable value.

Excess Material. The Navy found excess material accumulated because personnel often did not want to purge inactive items from their inventories due to the perceived negative effect such action would have on local operating results and financial statement presentation. Some activities had local policies that material would not be excessed unless credit was received from the supply system. Others established local limits on items to be excessed, imposed moratoriums, or terminated reviews of excess material. The Inventories Not Held for Sale account was overstated by at least $49.2 million because excess inventory was reported at full value rather than at the reduced net realizable value. As a result of the review, the NAS determined that the reported inventory balances included $50.2 million in excess material.

Property, Plant and Equipment, Net. The Property, Plant and Equipment account includes capital assets and real property. Capital assets include, but are not limited to, military equipment, automated data processing software, equipment, and assets acquired under capital leases. Real property includes land, structures, facilities, leasehold improvements, and construction in progress. For the fiscal year ended September 30, 1993, the Fund reported

Property, Plant and Equipment, Net, of $10.6 billion, which is approximately 9 percent of total Fund assets.

The Fund was established under section 8121 (a) of Public Law 102-172, "Department of Defense Appropriations Act for 1992." Section 8121(b) of that law transferred to the Fund "all assets and balances of working capital funds heretofore established . . . . " To implement section 8121(b) of the law, the Office of the DoD Comptroller issued the "Capital Asset Accounting Guidance for the Defense Business Operations Fund," July 21, 1992. The guidance states that ownership of capital assets used by the Fund activities in providing goods or services must be recognized in the property and financial records of that business area.

Real Property Disclosure. In FY 1992, the IG, DoD, took exception to real property being reflected on the Fund's financial statements. We received a ruling on the legal issue of real property ownership from the Office of General Counsel, DoD, that helped formulate our opinion on the issue. That ruling stated that the legislation creating the DBOF did not transfer ownership of real property. The IG, DoD, interpreted the ruling to mean that real property should not be reflected on the DBOF financial statements. The DoD Comptroller did not agree, stating that the real property should be reflected on the statements to show the full costs of all resources and assets associated with the operations of Fund activities.

For use in evaluating the FY 1993 DBOF financial statements, we requested guidance from the GAO, Accounting and Information and Management Division, on the proper accounting treatment for real property used by the DBOF but owned by the Services. In response, the GAO specified three criteria that an item of property must meet to qualify as an asset and be reported in an entity's financial statements.

> First, it must embody a probable future benefit that will contribute to the entity's operations. Second, the entity that reports the asset must be able to obtain the benefit and control access to the benefit inherent in the asset. Lastly, the transaction or event giving the entity a right to and control over the benefit must have already occurred.

The GAO concluded that DBOF real property met those conditions and should be represented as an asset of the Fund and, accordingly, should be reflected in the Fund's financial statements with appropriate footnote disclosures. We have relied on the GAO advice on reflecting real property on the statements and future audits will review the business areas for compliance.

Source Documents.* The AAA reported that activities did not keep sufficient documentation to support the cost of the assets recorded in their property records. Current policy requires activities to keep supporting documentation for only 2 years. The Office of the Deputy Chief of Staff for Logistics is reviewing that policy, and the Federal Accounting Standards Advisory Board will address the issue during FY 1995. Until the Board determines how fixed assets should be valued and reported, the AAA has limited its evaluation of the Property, Plant and Equipment, Net account. The Army reported $1.97 billion of Property, Plant and Equipment for the fiscal year ended September 30, 1993.

The Air Force Depot Maintenance Service did not retain appropriate detailed records to support the historical cost and accumulated depreciation account balances for capital equipment. That situation occurred because personnel did not ensure that equipment custodians established and maintained complete equipment folders containing data supporting acquisition cost, useful life, or changes to the useful life. As a result, neither the accuracy of depot maintenance reported equipment values totaling over $1.8 billion nor the related accumulated depreciation of $0.7 billion could be verified.

Disclosure of Sponsor-Funded Equipment. Department of the Navy DBOF activities did not disclose $1.2 billion of sponsor-funded property and equipment on the September 30, 1993, Navy Consolidating Financial Statements. Sponsor-funded equipment is property provided by a sponsor to another activity for use on a specific project. The Budget and Accounting Procedures Act of 1950 and OMB guidance require full disclosure in financial statements of all assets, regardless of whether or not they are capitalized. However, the Navy Comptroller Manual, NAVSO P-1000, allows recording sponsor-funded equipment in memorandum accounts that are not included in activity financial statements. As a result, total assets of $1.2 billion of sponsor-funded equipment were not disclosed, and users of financial statements were provided incomplete information for making budgetary decisions and assessment of management performance.

Capitalization and Depreciation of Sponsor-Funded Equipment. Department of the Navy DBOF activities failed to capitalize and depreciate sponsor-funded equipment. The DoD Accounting Manual requires DBOF activities to capitalize and depreciate all fixed assets except those acquired for a specific project when no recurring use outside of that specific project exists. The Navy Comptroller Manual conflicts with DoD guidance and allows activities to hold sponsor-funded equipment in memorandum accounts that do not require capitalization and recording of depreciation expense on the financial statements. As a result, the full-costing concept intended by the DoD Comptroller was not exercised. Activities reviewed did not capitalize an estimated $309.6 million in sponsor-funded equipment, which resulted in misstatements on the September 30, 1993, Department of the Navy DBOF Consolidating Financial Statements.

Reporting of Property, Plant and Equipment.* The Air Force Depot Maintenance Service and Supply Management business area personnel did not report Property, Plant and Equipment totaling $1.2 billion on the September 30, 1993, DBOF financial statements. As a result, accountability for Air Force property was reduced and allowed the potential for misappropriation, theft, or misuse. In addition, the net values of equipment reported on the September 30, 1993, Depot Maintenance and Supply Management financial statements did not give a true and fair view for Property, Plant and Equipment.

Two Air Force depot maintenance activities did not classify and report unfunded equipment and facilities as required. Instead, the activities classified the assets as funded and reported them as depot maintenance-funded equipment items. That occurred because the Defense Accounting Office personnel at Aerospace Maintenance and Regeneration Center and Sacramento Air Logistics Center issued asset classification guidance that was not clear, which led to the various

That occurred because the Defense Accounting Office personnel at Aerospace Maintenance and Regeneration Center and Sacramento Air Logistics Center issued asset classification guidance that was not clear, which led to the various depot maintenance activities interpreting the guidance in different ways. Additionally, those Defense Accounting Office personnel did not develop an internal control system to ensure the activities were complying with the intent of the Defense Accounting Office's direction. As a result, comparative and consolidated financial statements among activities do not provide reliable analytical data.

Air Mobility Command personnel did not accurately report equipment and related depreciation on the September 30, 1993, financial statements. That situation occurred because Air Mobility Command personnel did not have an accurate data base to track and report equipment; include all FY 1993 equipment transactions; or accurately report special and general purpose vehicles, estimate the age of equipment, and report equipment values. As a result, the correct adjusting entry for the $557.5 million yearend account balances reported in the September 30, 1993, financial statements could not be determined.

Air Mobility Command and Defense Accounting Office personnel at Airlift Services Division did not accurately report property, plant and equipment transactions totaling $35.0 million during FY 1993. Specifically, those Defense Accounting Office personnel did not properly record accounting entries, capitalize and depreciate the cost of minor construction projects, and report amortization of leasehold improvements. As a result, assets and depreciation/amortization values on the September 30, 1993, financial statements of the Airlift Services Division of the U.S. Transportation Command were misstated.

Accuracy of Financial Data.* The FY 1993 financial statements of the Joint Logistics Systems Center did not accurately portray its financial position. Specifically, the Property, Plant and Equipment balance of $266.4 million and operating expenses of $29.6 million for FY 1993 were materially misstated. That situation occurred because the Joint Logistics Systems Center had not implemented an effective internal control program, as required by DoD; had not complied with DoD Comptroller guidance on capitalization of assets and use of operating funds; and did not enforce its own provisions requiring monthly capital expense reporting. As a result, material inaccuracies in financial data were reported to higher authorities and the usefulness of the financial statements was limited.

Accounting Entries.* Defense Accounting Office personnel at the Ogden Air Logistics Center incorrectly increased the assets capitalized account by approximately $5.6 million for equipment purchased with DBOF funds. That situation occurred because Air Force Materiel Command Regulation 170-10, "Depot Maintenance Service, Air Force Industrial Fund Financial Procedures," January 30, 1987, erroneously identified the Assets Capitalized account as an appropriate credit entry for all equipment purchases. Cost accounting personnel at Ogden Air Logistics Center used this regulation for creating their journal vouchers. As a result, the Ogden Air Logistics Center cost accounting personnel overstated the assets capitalized account by

approximately \$5.6 million and understated either accounts payable or cash disbursements by the same amount.

Reportable Conditions Not Noted. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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Part III - Compliance With Laws and Regulations

Introduction

We evaluated selected accounts of the Statement of Financial Position for the Defense Business Operations Fund (DBOF, the Fund) for material instances of noncompliance with laws and regulations for the year ended September 30, 1993. Those accounts were Fund Balance With Treasury; Inventory Held for Sale, Net; Inventory Not Held for Sale; and Property, Plant and Equipment. The statements upon which we based our evaluation were transmitted to us on May 4, 1994, and dated March 31, 1994. Such tests are required by the Chief Financial Officers Act of 1990.

During FY 1993, the Comptroller of the Department of Defense (DoD Comptroller) updated sections of DoD 7220.9-M, "DoD Accounting Manual" (DoD Accounting Manual), and incorporated those sections into a new set of manuals using the 7000.14-R series of numbers. The new 7000.14-R manuals will serve as the single DoD-wide financial management regulation for use by all DoD Components for accounting, budgeting, finance, and financial management education and training.

Methodology

As part of our examination to obtain reasonable assurance that selected accounts on the Fund's Statement of Financial Position were free of material misstatements, we performed tests of compliance with laws and regulations. See Part IV, Appendix D, for a list of laws and regulations tested.

The Inspector General (IG), DoD, is responsible for expressing an opinion on the consolidated financial statements of the Defense Business Operation Fund for FY 1993. To fulfill that responsibility, we coordinated our audit efforts with the Service audit organizations (the Army Audit Agency (AAA), the Naval Audit Service (NAS), and the Air Force Audit Agency (AFAA).) We believe that our combined efforts provide a reasonable basis for our results.

Objective

Our audit objective was to assess compliance with laws and regulations for those transactions and events that have a direct and material effect on the financial statements. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations. Such failures and violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements, or those whose sensitive nature would cause them to be perceived as significant by others.

The Deputy Secretary of Defense and the Director, Defense Finance and Accounting Service (DFAS), are responsible for ensuring compliance with laws and regulations applicable to the Fund. As part of obtaining reasonable

assurance about whether the Principal Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and others laws and regulations designated by the Office of Management and Budget (OMB) and the DoD. See Part IV, Appendix D, for a list of laws and regulations tested.

As part of our examination, we reviewed management's compliance with DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We compared management's most recent Annual Statement of Assurance with our evaluation of the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented to us in the Overview to the Fund's Principal Statements, as well as supplemental financial and management information. It was not our objective, however, to provide an opinion on overall compliance with such provisions.

Prior Audit Coverage

Since the inception of the Fund in 1992, numerous reports on the DBOF have been issued by the General Accounting Office, the Service audit organizations, and the IG, DoD. We summarized those audit reports in Part II, "Internal Controls," by subject area. Many of the reportable conditions are common among the reports and many of the internal control weaknesses cited in the summaries are related to compliance with laws and regulations. See Part IV, Appendix C, for a complete list of reports resulting from those audits.

Results of Audit

Our examination disclosed several instances of noncompliance with regulations that materially affected the reliability of the DBOF financial statements. Except as described below, the results of our tests of compliance indicate that, with respect to the items tested, the managers of the DBOF complied, in all material respects, with the laws and regulations identified in Part IV, Appendix A, of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the management had not complied, in all material respects, with those provisions. Paragraph titles followed by an asterisk denote conditions that were reported in prior audits of the Fund.

Standard General Ledger.* The DFAS-Indianapolis Center did not use an integrated general ledger to produce the FY 1993 financial statements. In addition, several Army DBOF supply systems did not use the standard general ledger system. The DoD Accounting Manual requires that activities use the Standard General Ledger chart of accounts. OMB Circular No. A-127, "Financial Management Systems," requires agencies to establish and maintain a single integrated financial management system that may be supplemented with subsidiary systems. The lack of a fully integrated general ledger and failure to use the Standard General Ledger system can lead to inaccurate financial

statements and, therefore, inaccurate information being provided to management.

Accounting Control.* DoD 7000.14-R, volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, requires accounting control over all resources. The Air Force and the Army could not validate Government-Furnished Material owned by the DBOF. Also, the controls over Material-in-Transit were inadequate, resulting in transactions that were not valid or caused duplicate recording of inventory.

Internal Management Control Program.* The Defense Logistics Agency had not effectively implemented an Internal Management Control Program over the reporting of results for physical inventories, and accounting records were not reconciled with inventory records. The Navy did not disclose in its Annual Statement of Assurance material internal control weaknesses and prepared inaccurate vulnerability assessments for assessable units related to inventory. The Air Force had material internal control weaknesses related to Inventories; Property, Plant and Equipment; Inventories Not for Held Sale; and Accrued Expenses that were not reported in its Annual Statement of Assurance required by DoD 5010.38. DoD 5010.38 requires management to report on material internal control weaknesses, identify corrective actions taken, and provide specific plans and schedules for planned corrective actions.

Reconciliation.* The General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, "Accounting," states that general ledger balances must be reconciled with subsidiary accounts and records. The Defense Logistics Agency and the Army did not reconcile subsidiary records to general ledger accounts. The Army and the Navy logistics and financial records did not agree, and financial records were adjusted to agree with logistics records without the use or availability of supporting documentation.

Valuation of Inventory. The Army valued all inventory at standard price regardless of its condition. The Defense Logistics Agency valued reutilization and marketing inventories at standard price instead of the required 2.04 percent of latest acquisition cost. The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property," requires that activities value excess, obsolete, and unserviceable inventory at the expected net realizable value. Inventory balances included $50.2 million in excesses.

DoD Accounting Manual, Chapter 14, "Internal Controls." Inventories Not Held for Sale were overstated by a net amount of at least $32.8 million, due to erroneous inventory records, inappropriate use of the Material-in-Transit Account, and improperly trained personnel. The DoD Accounting Manual, chapter 14, "Internal Controls," requires that all financial data presented in reports be complete and accurate.

"DoD Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity," January 12, 1994, defined Inventories Not Held for Sale as amounts of materiel and goods held for future agency consumption or stockpiled for use in national emergencies or for other purposes.

Included are war reserve items. The guidance directs any allowances for inventory losses, and the inventory valuation methods, by category, as well as directing that any restrictions on use or convertibility shall be disclosed in Note 5. The Defense Logistics Agency categorized base operating supplies, unserviceable materiel, war reserve materiel, and litigation as Inventories Held for Sale, instead of Inventories Not Held for Sale, and failed to fully disclose such in Note 5 of the financial statements.

Performance Measures. "DoD Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity" outlines the core performance measures that must be in the Overview or provided as supplemental information for management. The guidance also requires reporting activities to present conclusions about the results of performance measures. The Army did not include the core performance measure for Depot Maintenance (Other) in the statements. It included the other core measures, but did not provide conclusions about the results or benchmarks against which the results could be measured.

Property, Plant and Equipment.* The DoD Accounting Manual states that activities should maintain an accounting system that can compute depreciation on an item-by-item basis. Each building should be depreciated individually. Most Army depot maintenance activities did not have accounting systems that allowed them to compute depreciation for individual buildings. The lack of a fully integrated system could affect the accuracy of the financial statements.

Notes to the Financial Statements.* The Notes to the FY 1993 DBOF Financial Statements were not presented in conformance with the DoD Guidance on Form and Content on Financial Statements for FY 1993 and FY 1994 Financial Activity. The DoD Guidance on Form and Content requires 26 notes to the financial statements and that they be presented in sequence and noted "not applicable" if appropriate. The statements only presented four notes without mention of the remaining 22 notes.

For example, the statements did not include notes to explain the Inventory and Property, Plant, and Equipment accounts. The inventory note should report separate amounts for Inventory Held for Sale (valued at $79.7 billion), and Inventory Not Held for Sale (valued at $9.2 billion). The note should also provide amounts for allowance for losses, net inventory, and the method(s) of valuation. Further categories of inventory such as Stockpile Materials and War Reserves should also be disclosed. The Property, Plant and Equipment account (valued at $10.6 billion) should have a note explaining the depreciation method used, the range of service lives of the assets, the original acquisition costs of assets currently in use, the accumulated depreciation, and the net book value of the assets. In addition, real property used by but not owned by the DBOF was not disclosed in any notes. Additionally, the notes did not include an explanation for the intrafund eliminations. Failure to record intrafund eliminations results in overstatements of assets, liabilities, and stockholders equity in the reporting entity Statement of Financial Position and the consolidated Statement of Financial Position.

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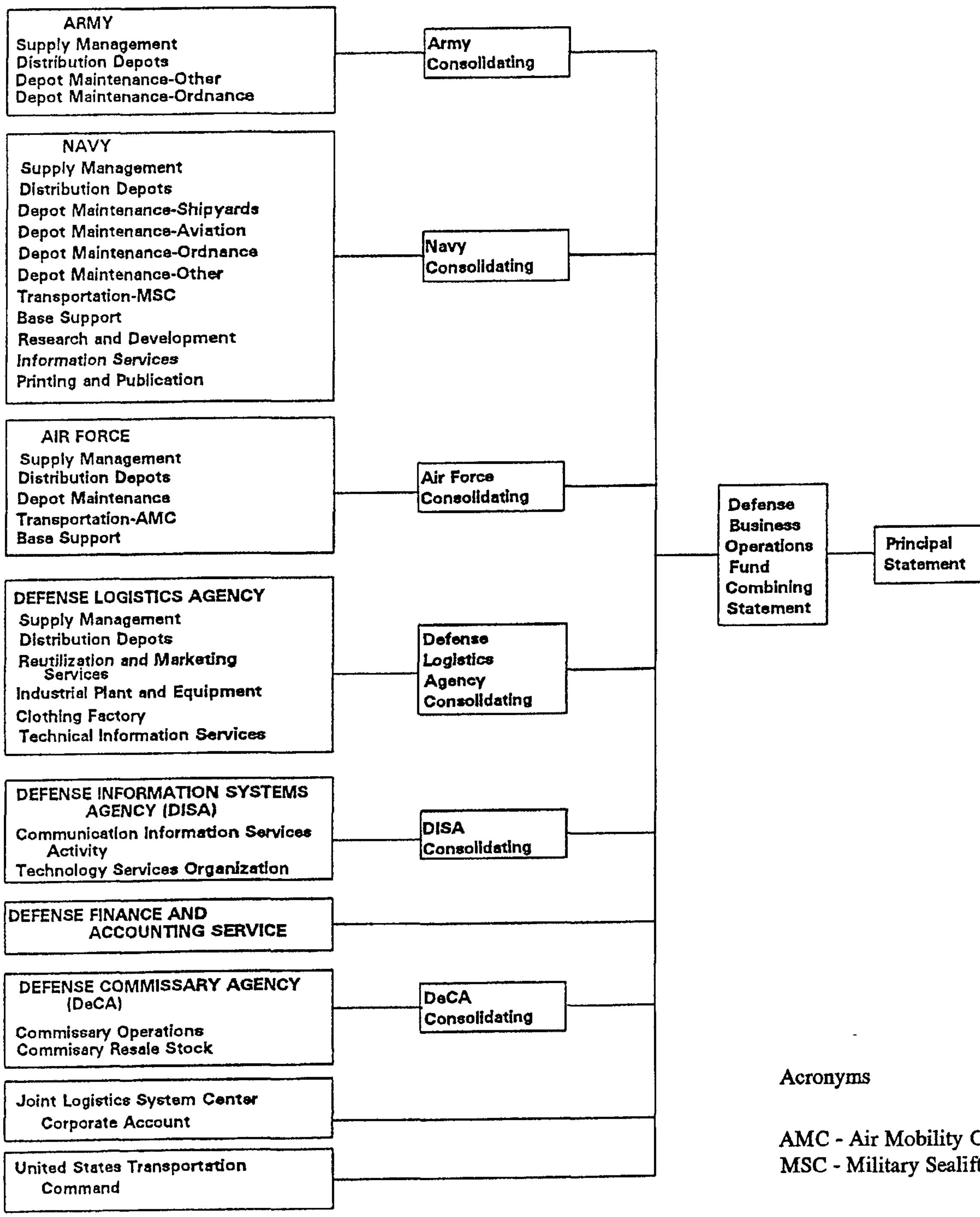
Part IV - Additional Information

Appendix A. Financial Statement Reporting Structure for the Defense Business Operations Fund



Acronyms

AMC - Air Mobility Command
MSC - Military Sealift Command

Appendix B. Summary of Work Performed by Others

Component	Business Area	FY 1993 Reported Assets	FY 1993 Reported Expenditures	Organizations Performing Audit Work	Scope of Audit Work Performed	Audit Project Number
Army	Supply Management	$19,347,771.589	$10,669,372,424	Army Audit Agency	Limited [1]	N4-379C
	Distribution Depots	(193,851,335)	11,151,069		None	Unaudited
	Depot Maintenance-Other	3,148,373,970	1,965.632,594	Army Audit Agency	Limited [1]	N4-379C
	Depot Maintenance-Ordnance	1,339,323.059	587.531,960	Army Audit Agency	Limited [1]	N4-379C
	Transportation	0	0	Army Audit Agency	Limited [1]	N4-379C
	Consolidating	23,641,617,283	13,233.688,047	Army Audit Agency	Limited [1]	N4-379C
Navy	Supply Management	20,303,745,614	7,871.495,967	Naval Audit Service	Limited [1]	93-0045
	Distribution Depot	230,234,581	591,569,621		None	Unaudited
	Depot Maintenance-Shipyards	3,311,232,705	5,416.737,868	Naval Audit Service	Limited [1]	93-0045
	Depot Maintenance-Aviation	1,405,213,290	2,287.935,848	Naval Audit Service	Limited [1]	93-0045
	Depot Maintenance-Ordnance	554,743,440	684.193,995	Naval Audit Service	Limited [1]	93-0045
	Depot Maintenance-Other	237,317,110	189.892,513		None	Unaudited
	Transportation	28,302,544	667.460,383	Naval Audit Service	Limited [1]	93-0045
	Base Support	1,115,306,169	1,814,745,000	Naval Audit Service	Limited [1]	93-0045
	Research and Development	4,014,405,300	6,758,584,307	Naval Audit Service	Limited [1]	93-0045
	Information Services	94,233,486	306,096,126		None	Unaudited
	Printing and Publications	138,386,660	427,649,028	Naval Audit Service	Limited [1]	93-0045
	Consolidating	31,433,120,899[4]	27,016,360,656[4]	Naval Audit Service	Limited [1]	93-0045
Air Force	Supply Management	34,935,401,624	8,907,637,851	Air Force Audit Agency	Limited [1]	94068019,20,26
	Distribution Depots	(13,038,032)	1,586,278		None	Unaudited
	Depot Maintenance	3,641,738,490	4,122,429,549	Air Force Audit Agency	Limited [1]	94068019,20.26
	Transportation	357,085,114	1,137,138,102	Air Force Audit Agency/DoDIG	Limited [1]	94068018,19,20.26
	Base Support	9,318,036	6,897,472		None	Unaudited 93068006,10
	Transportation Command	1.593,451,158	5,518,247,988		None	Unaudited
	Consolidating	40,523,956,390[4]	19.693,937.240[4]	Air Force Audit Agency	Limited	94068019,20,26

1 The audit was limited to a review of the majority of the accounts on the Statement of Financial Position.
2 CISA = Communications Information Agency; DFAS = Defense Finance and Accounting Service; DeCA = Defense Commissary Agency; DITSO = Defense Information Technology Services Organization, now DISO, Defense Information Services Organization; JLSC = Joint Logistics Service Center; TRANSCOM = U.S. Transportation Command.
3 The audit was limited to a review of one or more of the financial statement line items - Financial Resources: Fund Balance with Treasury; Inventory Held for Sale, Net: Non-Financial Resources: Inventories Not Held for Sale: and Property, Plant and Equipment.
4 Amounts do not agree with the Component financial statement.

Appendix B. Summary of Work Performed by Others

Component [2]	Business Area	FY 1993 Reported Assets	FY 1993 Reported Expenditures	Organizations Performing Audit Work	Scope of Audit Work Performed	Audit Project Number
Defense Logistics Agency	Supply Management	14,120,789,372	15,381,823.376	DoD Inspector General	Limited [1]	3LD-2022,3 & 4LE-2001
	Distribution Depots	1,130,587.661	1,631,213,212	DoD Inspector General	Limited [3]	3LD-2023
	Reutilization and Mkting Svcs	5,272.862,274	396,541,992	DoD Inspector General	Limited [3]	4LE-2001
	Industrial Plant and Equip Ctr	16,763.881	36,434,499		None	Unaudited
	Clothing Factory	8,852,092	35,787,627		None	Unaudited
	Consolidating	20,549,855,280 [4]	17,481,800,706		None	Unaudited
Technical Info Serv	Consolidating	62,172,975	47.500,749		None	Unaudited
CISA/DITSO	Consolidating	584,068,658	1,608.946,698		None	Unaudited
DFAS	DFAS Operations	(66,134,544)	1,127,066,325		None	Unaudited
DeCA	Commissary Operations	(963,586,903)	1,213,577,535		None	Unaudited
	Commissary Resale Stocks	1,032,371,107	5,948,846,210		None	Unaudited
	Consolidating	68,784,204	7,162,423,745		None	Unaudited
JLSC	Consolidating	22,842,041	29,637,640		None	Unaudited
TRANSCOM	Consolidating	1,454,224,540	5,561,657,321		None	Unaudited
Corporate Acct	Consolidating	(1,031,217)	2.441,696		None	Unaudited
Departmental	Consolidating	593,657,664	(893,086,000)		None	Unaudited
Total		$118.867.134.173 [4]	$92.072.374.823 [4]			

1 The audit was limited to a review of the majority of the accounts on the Statement of Financial Position.

2 CISA = Communications Information Agency; DFAS = Defense Finance and Accounting Service: DeCA = Defense Commissary Agency: DITSO = Defense Information Technology Services Organization, now DISO, Defense Information Services Organization; JLSC = Joint Logistics Service Center; TRANSCOM = U.S. Transportation Command.

3 The audit was limited to a review of one or more of the financial statement line items - Financial Resources: Fund Balance with Treasury; Inventory Held for Sale, Net; Non-Financial Resources: Inventories Not Held for Sale; and Property, Plant and Equipment.

4 Amounts do not agree with the Component financial statement.

Appendix C. Prior Audit Coverage

REPORT NUMBER	TITLE	DATE

General Accounting Office

AIMD-94-80	Financial Management, Status of the Defense Business Operations Fund (DBOF)[1]	March 9, 1994

Inspector General, Department Of Defense

94-082	Financial Management of the DBOF-FY 1992	April 11, 1994
93-164	Financial Statements of the Defense Logistics Agency Supply Management Division of the DBOF (Defense Fuel Supply Center Financial Data) for FY 1992	September 2, 1993
93-153	DBOF, Communication Information Services Activity Financial Statements for FY 1992	August 6, 1993
93-151	Compliance with the Federal Managers' Financial Integrity Act at the Defense Commercial Communications Office	July 26, 1993
93-147	Defense Commissary Resale Stock Fund Financial Statements for FY 1992	June 30, 1993
93-134	Principal and Combining Financial Statements of the Defense Business Operations Fund for FY 1992	June 30, 1993

Army Audit Agency

NR 94-454	DBOF, Depot Maintenance, Army FY 92 Financial Statements, Report of Management	March 30, 1994

[1]Acronym used in report titles for brevity.

REPORT NUMBER	TITLE	DATE

Army Audit Agency (cont'd)

NR 94-456	DBOF, Transportation, Army FY 92 Financial Statements, Report of Management Issues	March 30, 1994
NR 94-457	DBOF, FY 92 Financial Statements, Common Management Issues	March 30, 1994
NR 93-462	DBOF Transportation, Army	June 30, 1993
NR 93-463	DBOF Depot Maintenance, Army	June 30, 1993

Naval Audit Service

053-H-93	FY 1992, Consolidating Financial Statements of the Department of the Navy DBOF	June 30, 1993

Air Force Audit Agency

94068025	Air Force Depot Maintenance Service, FY 1993 Material In-Transit Balances	April 1, 1994
93068005	Internal Controls and Management Issues Related to Laundry and Dry Cleaning Service, DBOF, FY 1992 Financial Statements	September 7, 1993
92066008	Review of the Design and Development Activities for the Depot Maintenance Management Information System	August 18, 1993
93068024	Opinion on Air Force Consolidating Statements, DBOF, FY 1992 Financial Statements	June 30, 1993
93068012	Opinion on Air Force Distribution, Depot, DBOF, FY 1992 Financial Statements	June 30, 1993
93068011	Opinion on Air Force Supply Management, DBOF, FY 1992 Financial Statements	June 30, 1993

REPORT NUMBER	TITLE	DATE

Air Force Audit Agency (cont'd)

92068002	Opinion on Air Force Depot Maintenance, DBOF, FY 1992 Financial Statements	June 30, 1993
92068003	Opinion on Laundry and Dry Cleaning Service, DBOF, FY 1992 Financial Statements	June 30, 1993
92071002	Opinion on Air Force Transportation, DBOF, FY 1992 Financial Statements	June 29, 1993
92066002	Review of General and Application Controls Within the Equipment Inventory, Multiple Status and Utilization Reporting Subsystem	April 1, 1993
92066010	Review of General and Application Controls Within the Contract Depot Maintenance Production and Cost System	April 1, 1993
92062001	Review of DMIF[2] Revenue Accounts, FY 1992 Financial Statements	February 28, 1993

[2]Depot Maintenance Industrial Fund.

Appendix D. Laws and Regulations Reviewed

Public Law 102-396, "Department of Defense Appropriation Act of 1993"

Public Law 102-190, "National Defense Authorization Act for Fiscal Years 1992 and 1993" as amended by Section 341, Public Law 102-484, "National Defense Authorization Act for Fiscal Year 1993," October 23, 1993

Public Law 101-576, "Chief Financial Officers Act of 1990"

Public Law 100-496, "Prompt Payment Act of 1988"

Public Law 97-365, "Debt Collection Act," October 25, 1982

Public Law 97-255, "Military Construction Codification Act," July 12, 1982

31 U.S.C. 3512, "Budget and Accounting Procedures Act of 1950"

31 U.S.C. 1341, "Antideficiency Act"

DoD 7000.14-R, Volume 1, "General Financial Management Information, Systems, and Requirements," May 1993

DoD 7000.14-R, Volume 5, "Disbursing and Policy Procedures," December 1993

DoD 7000.14-R, Volume 8, "Civilian Pay Policies and Procedures"

DoD 7000.14-R, Volume 15, "Security Assistance Policy and Procedures"

DoD 7220.9-M, "DoD Accounting Manual," as amended, June 17, 1991

DoD 7200.10-M, "Report of Survey"

DoD Directive 4140.31, "The Defense Inactive Item Program"

DoD 5010.38, "Internal Management Control Program," April 14, 1987

Joint Financial Management Improvement Program Core Financial System Requirements FFMSR-1,* January 1988

Treasury Financial Manual, June 12, 1990

U.S. Standard General Ledger, November 12, 1992

*Federal Financial Management Systems Requirements

General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, "Accounting," May 18, 1988

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993

OMB Bulletin No. 93-06, "Audit Requirement for Federal Financial Statements," January 8, 1993

OMB Statement of Federal Financial Accounting Standards Number 1,"Accounting for Selected Assets and Liabilities," March 30, 1993

"DoD Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity," January 12, 1994

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Comptroller of the Department of Defense, Arlington, VA
Director of Revolving Funds, Office of the Deputy Comptroller (Program and Budget), Arlington, VA
Director of Financial Management Policy, Office of the Deputy Comptroller (Management Systems), Arlington, VA
Deputy Under Secretary of Defense (Logistics), Arlington, VA

Department of the Army

Headquarters, Army Audit Agency, Arlington, VA
Army Audit Agency, Midwestern Region, Aviation Troop Command, St. Louis, MO
Army Audit Agency, Red River Army Depot, Texarkana, TX
Army Audit Agency, Rock Island Arsenal, Rock Island, IL
Tank Automotive Command, Warren, MI

Department of the Navy

Headquarters, Naval Audit Service, Arlington, VA
Naval Audit Service, Southeast Region, Virginia Beach, VA
Naval Audit Service, Norfolk Naval Shipyard, Norfolk, VA
Naval Supply Center, Oakland, CA
Marine Corps Logistics Base, Albany, GA

Department of the Air Force

Air Force Audit Agency, Wright-Patterson Air Force Base, OH
Air Force Audit Agency, Kelly Air Force Base, TX
Air Force Audit Agency, Tinker Air Force Base, OK
Air Force Audit Agency, Peterson Air Force Base, CO
Warner Robins Air Force Base, GA

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service Center, Columbus, OH
Defense Finance and Accounting Service Center, Denver, CO
Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Accounting Office, Arlington, VA

Defense Agencies (cont'd)

Headquarters, Defense Logistics Agency, Arlington, VA
  Defense Distribution Depot, Ogden, UT
  Defense Distribution Depot, San Diego, CA

Appendix F. Report Distribution

Office of the Secretary of Defense

Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)
Deputy Under Secretary of Defense (Logistics)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Installations and Logistics)
Assistant Secretary of the Army (Research, Development and Acquisition)
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management & Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Finance and Accounting Service
- Director, Defense Finance and Accounting Service-Cleveland Center
- Director, Defense Finance and Accounting Service-Columbus Center
- Director, Defense Finance and Accounting Service-Denver Center
- Director, Defense Finance and Accounting Service-Indianapolis Center
- Director, Defense Accounting Office-Arlington, VA

Director, Defense Commissary Agency
Director, Defense Information Systems Agency
Director, Defense Logistics Agency

Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center, U.S. General Accounting Office

Honorable Charles E. Grassley

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:
Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Readiness, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

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Part V - Defense Business Operations Fund - Consolidated Financial Statements For FY 1993

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAY 4 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of Defense Business Operations Fund Financial Statements on FY 1993 Financial Activity

The attached consolidated financial statements for the Defense Business Operations Fund on FY 1993 financial activity are submitted for audit as required by the Chief Financial Officers Act.

My staff, and that of the Defense Finance and Accounting Service, are available to provide assistance and information as you require in the audit of these financial statements. We will work with your staff to make the necessary adjustments and improvements.

My point of contact on this matter is Mr. Oscar G. Covell. He may be reached at (703) 697-6149 or DSN 227-6149.

Alvin Tucker
Deputy Chief Financial Officer

Attachment

DEFENSE BUSINESS OPERATIONS FUND

ANNUAL FINANCIAL REPORT
FY 1993

DEFENSE BUSINESS OPERATIONS FUND OVERVIEW

ESTABLISHMENT OF THE DEFENSE BUSINESS OPERATIONS FUND

A Changing Defense Environment

When the 1990s began, the Department of Defense faced a changing world order and a compelling need to reduce the federal deficit. The challenge for the Military Services was to downsize the force with minimum loss of capability. A focus was placed on improving efficiency and effectiveness through streamlining, consolidation of functions, and improved financial and managerial practices.

The Defense Business Operations Fund, or DBOF, emerged in this period of critical review during which the standard ways of doing business were challenged and new and more creative ways were being sought. The idea behind DBOF was to use a financial tool to understand and control the size and cost of certain Defense support functions. The objective was to help maximize the availability of resources that directly support force readiness by more accurately defining support requirements and their costs.

The DBOF uses a revolving fund financial structure in which funding is placed in the hands of the consumers--the operating forces. The operating forces then purchase the level of support they require from DBOF support activities. DBOF business areas, in turn, are reimbursed by the customer for the total cost of support provided. It is this marketplace "tension" between customer and provider that ultimately serves to discipline the customer's demand for support and discipline the provider's decisions concerning the cost of providing that support.

In order to achieve improved financial management, nine separate stock and industrial funds managed by the Services and Agencies were merged to form a single revolving fund account called the Defense Business Operations Fund in FY 1992. In addition to the consolidation of these funds, a few Defense Agency support functions, such as finance and accounting services, which were previously funded through direct appropriations, were converted to DBOF-funded management. The formation of a

single revolving fund account was believed to provide the best framework for standardizing business processes and financial practices of similar business activities and for reducing the overall level of working capital needed by the Department.

DBOF was created by Section 316 of the National Defense Authorization Act for Fiscal Years 1992 and 1993 (P.L. 102-190, 105 Stat. 1338). This legislation provided that working-capital funds established under Title 10 U.S.C. Section 2208 could be managed through the Defense Business Operations Fund.

Although the DBOF consolidated nine funds into a single account, it did not alter the operational control over the support activities operating under this account. The depot maintenance activities, inventory control points, and other revolving fund activities continued to be managed by the Service or Agency that controlled them prior to DBOF. The emphasis was on maintaining decentralized control over day-to-day operations while standardizing the financial processes. The goal was to enable the Department to achieve a higher level of fiscal integrity in the management of its support operations.

A Need for Total Cost Visibility and Full Cost Recovery

Two factors shaped the foundation of the concept from which DBOF evolved. First, the support providers must be given incentives to control and reduce cost. The approach was to make all of the costs of providing support to the operating forces visible, both to the provider of the support and to the operating forces that use them. When the work of a support organization is managed as a total cost proposition, cost management goals that are useful to line managers can be established. Budgets can be allocated to working level managers which are based upon cost goals that are tied to work output. This ensures that support activities are funded for the work output actually produced rather than for a predetermined estimate of resource mix. This funding process, called Unit Cost Resourcing, provides greater flexibility to accommodate the program changes that inevitably occur over the nearly 18 month interval between budget preparation and the year of budget execution. Total cost visibility and resourcing based upon actual work output enables the Department to gain a better understanding of what is required to provide support and reduce overall costs of operations.

Secondly, it is commonly recognized that defining a suitable balance between the support infrastructure and the operating forces is very difficult. Traditionally, most support activities are justified and operated independently from the operating forces.

DBOF, instead, is centered around the belief that if the consumers of the services provided by support functions define their support requirements and are responsible for paying for them, we will collectively begin to "rightsize" the support structure. When the support function has a clear picture of its total cost and requires full recovery of those costs from the customers, then total cost management is no longer merely a statistical exercise but plays an essential role in DoD resource management.

Revolving Fund Financing

The provider must set prices for the goods and services to recover the full cost of production. The price development process requires that all direct, indirect, general and administrative, and capital depreciation costs be allocated appropriately to each product or service. Given the need for full cost recovery from customers, the management of all elements of cost becomes a critical responsibility for the DBOF support provider.

A fundamental tenet of DBOF is that the customer should make the decision about how much support is necessary and that the customer should be given the funding to buy the level of support actually required. The requirement for the support of the operating forces should be justified by the consumer of that support. The consumer is in the best possible position to link mission requirements with the appropriate level of support for that mission. It is this linking of resourcing decisions about mission and support that begins to answer one of the Department's most vexing questions, "Just how much support is enough?"

Capital Budgeting

A significant change brought about by DBOF was the inclusion of capital budgeting concepts which recognize the integral relationship between capital investment and daily operations. The budgeting of capital investment items is one of the most important areas of managerial decisionmaking. Decisions today to make large investments in infrastructure will impact an activity's operations for years to come. The magnitude of resources involved and length of time needed to realize the return on the investment require sound analysis and judgment.

Prior to DBOF, capital investments were funded in direct investment appropriations. A primary factor in determining whether a capital asset was purchased was the availability of investment funds based upon that capital asset's

priority relative to other military items funded in the same account. The history of DoD's investment accounts indicates that the capital equipment required to operate the support establishment did not compete well against major weapon system purchases.

When an asset is placed in operation in a DBOF business area, that business must begin to depreciate the cost of the asset in the operating budget. Depreciation costs are included in the business area's unit cost goals, and is ultimately included in the prices charged to the business's customers. This process brings market forces to bear upon the investment decision.

Stabilized Rates

Rates are established on a fiscal year basis and are set to recover the provider's estimated total cost of support operations. Rates also reflect any gains or losses from the business area's prior year operating results in order to break even over time. These rates are stabilized and held constant during the year of budget execution. Resources are budgeted in the customers' appropriated fund accounts to pay the established rates. This stabilized rate policy serves to protect appropriated fund customers from unforeseen cost changes and permits more effective management of resources by customers and providers alike.

SCOPE OF OPERATIONS

In Fiscal Year 1993, the total operating costs of support activities within the DBOF financial structure was approximately $82 billion. In addition to these operating costs, capital costs for Fiscal Year 1993, which include minor construction, software development, and procurement of equipment, totaled approximately $1.5 billion. In Fiscal Year 1993, DBOF business areas employed approximately 400,000 military and civilian personnel. The goods and services provided by DBOF support activities range from common supply items to state-of-the-art research and development services. Detailed descriptions of each of the DBOF business areas listed below are provided in the Component financial statements:

- Supply Management
- Distribution Depots
- Depot Maintenance
- Navy Research and Development
- Information Services
- Base Support
- Printing and Publications
- Clothing Factory

Transportation	Industrial Plant Equipment
Commissary	Reutilization and Marketing
Financial Operations	Technical Information Service
Joint Logistics Systems Center	

The Component financial statements provide detailed reports by Component that address both the financial and the program performance of these business areas. This financial statement also provides financial information concerning the Defense Corporate Account 5R in the Combining Statements. This account is for Department-level Fund management requirements.

CURRENT ISSUES

The DBOF Improvement Plan

In April 1993, the Secretary of Defense expressed his concern that the readiness of our forces could be adversely affected by various aspects of DBOF operations. To address the concerns of the Secretary, the Military Departments, and Congress, the Deputy Secretary of Defense directed that a review be performed to assess the soundness of the DBOF concept, and to review its implementation to identify shortcomings and make recommendations to correct identified weaknesses. The goal was to ensure that the DBOF fully supported the Secretary's readiness goals. The review was performed by members of the Components as well as OSD functional offices. Together, they were able to assess requirements and develop joint recommendations for financial management improvement.

The review resulted in validation of the DBOF concept and also in a requirement to take significant actions to improve Fund implementation and operation. These improvement actions have been documented in the DBOF Improvement Plan which was endorsed by the Deputy Secretary and the Service Secretaries in September 1993. The plan includes 54 actions to improve accountability and control, the DBOF structure, policies and procedures, and financial systems.

Advance Billing

The Department was directed by Congress in FY 1993 to make transfers from DBOF to operation and maintenance accounts. The amount was more than had been budgeted by the Department. While this is not the Department's preferred financial

practice, the DBOF had to initiate advance billing in depot maintenance and Navy research and development activities in order to generate adequate cash to complete the transfers.

CONCLUSION

The Defense Business Operations Fund concept of financial operations has been thoroughly reviewed by the Department and validated as a means of managing a significant portion of the Defense support infrastructure. The senior leadership of the Department strongly endorses the DBOF concept. The Department's vision is to establish a robust financial system that allows DoD managers at every level to evaluate the total cost and performance of selected support infrastructure operations. The Department's objectives are to:

- Provide financial tools for decisionmakers at every level of this large and complex organization. Products and services will be priced at full cost to enable managers to concentrate on minimizing costs, develop a better understanding of costs, and make decisions based on knowing these costs.
- Improve delivery of support goods and services to the operating forces. Output-oriented resourcing mechanisms that clearly relate funding levels to actual workload, reward efficiency, and focus on customers.
- Maintain a continuous focus on bringing our financial practices into the next century. Standardized financial management policies, procedures, and systems will adapt age-old government practices to a new standard and usher in a new era of financial responsibility and accountability.

DEFENSE BUSINESS OPERATIONS FUND

PRINCIPAL STATEMENTS

31 MARCH 1994

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

ASSETS	TOTAL DBOF 93	TOTAL DBOF 92
1 FINANCIAL RESOURCES:		
a Fund Balances with Treasury(Note 2)	4,684,406,528	4,134,600,298
b Cash	40,855	27,506
c Foreign Currency	0	0
d Other Nonetary Assets	0	0
e Investments, Non-Federal	0	0
f Accounts Receivable, Net-Non-Federal	456,591,476	469,227,332
g Inventories Held for Sale, Net	79,653,193,061	79,318,762,158
h Loan Receivable, Net-Non-Federal	0	1,576,155,313
i Property Held for Sale	0	0
j Other, Non-Federal	2,040,458,781	1,425,370,512
k Intragovernmental Items:		
(1) Accounts Receivable, Federal	6,366,145,184	6,106,265,974
(2) Loans Receivable, Federal	0	0
(3) Investments, Federal	0	0
(4) Other, Federal	1,032,965,011	225,191,610
l Total Financial Resources	94,233,800,896	93,255,600,703
2 Non-Financial Resources:		
a Resources Transfer to Treasury	0	0
b Advances and Prepayments, Non-Federal	936,701,294	1,164,405,031
c Inventories Not Held for Sale	9,236,456,775	9,261,339,298
d Property, Plant & Equipment, Net	10,575,822,889	11,352,346,969
e Other	1,963,132,818	3,097,835,973
f Total Non-Financial Resources	22,712,113,776	24,875,927,271
3 Total Assets	116,945,914,672	118,131,527,974
LIABILITIES		
4 Funded Liabilities		
a Accounts Payable, Non-Federal	6,193,974,435	6,813,942,805
b Accrued Interest Payable	0	0
c Accrued Payroll & Benefits	1,191,607,083	1 016,372,689
d Accrued Entitlement Benefits	0	3,958,807
e Lease Liabilities	0	673,593
f Liabilities for Loan Guarantees	0	0
g. Deferred Revenue-Non-Federal	8,705,918	0
h Pensions and Other Actuarial Liabilities	0	0
i Other Funded Liabilities, Non-Federal	11,774,215	111,608,290
j Intragovernmental Liabilities		
(1) Accounts Payable, Federal	4,527,549,542	3,742,675,818
(2) Debt	0	1,576,155,313
(3) Deferred Revenue (All G)	3,725,678,850	334,635,605
(4) Other Funded Liabilities, Federal	4,426,691,341	1,314,302,255
k Total Funded Liabilities	20,085,981,384	14,914,325,175
5 Unfunded Liabilities:		
a Accrued Leave	258,134,309	215,028,796
b Lease Liabilities	0	0
c Debt	0	0
d Pensions & Other Actuarial Liabilities	921,935	0
e Other Unfunded Liabilities	967,583,086	929,327,498
f Total Unfunded Liabilities	1,226,639,330	1,144,356,294
6 Total Liabilities	21,312,620,714	16,058,681,469
NET POSITION		
7 Fund Balances:		
a Revolving Fund Balances	96,829,122,537	103,213,401,594
b. Trust Fund Balances	0	0
c Appropriated Fund Balances	0	0
d Total Fund Balances	96,829,122,537	103,213 401,594
8 Less Future Funding Requirements	1,195,828,578	1,140,554,733
9 Net Position	95,633,293,959	102,072,846,861
10 Total Liabilities & Net Position	116,945,914,673	118,131,528,330

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

REVENUES & FINANCING SOURCES	TOTAL DBOF 93	TOTAL DBOF 92
1. Appropriated Expensed	1,417,300,000	3,424,200,000
2. Revenues from Sales of Goods		
a. To the Public	6,417,838,372	6,496,906,936
b Intragovernmental	68,268,124,494	63,727,671,408
3 Interest & Penalities, Non-Federal	0	0
4 Interest, Federal	0	0
5 Taxes (Note 18)	0	0
6. Other Revenues & Financing Sources	8,274,664,296	45,199,697,088
7. Less: Taxes & Receipts Returned to the Treasury	0	0
8. Total Revenues & Financing Sources	84,377,927,162	118,848,475,432
EXPENSES		
9 Program or Operation Expenses (Note 3)	6,894,741,962	18,150,504,617
10. Cost of Goods Sold or Services Sold		
a To the Public	5,160,762,458	5,197,338,177
b. Intragovernmental	69,592,867,205	54,247,148,475
11 Depreciation and Amortization	989,878,821	789,707,784
12. Bad Debts & Write-offs	23,965,763	26,603,083
13. Interest		0
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c Other	12,706,693	16,527,148
14. Other Expenses	1,671,375,153	40,274,762,222
15 Total Expenses	84,346,298,055	118,702,591,506
16. Excess (Shortage) of revenues & Financing Sources over Total Expenses Before Adjustments	31,629,107	145,883,926
17 Plus (Minus) Adjustments:		
a. Extraordinary Items	(2,019,743,162)	(848,316,409)
b Prior Period Adjustments	1,994,232,937	2,148,268,018
18. Excess (Shortage) of Revenues & Financing Sources over Total Expenses	6,118,882	1,445,835,535
19. Plus: Unfunded Expenses	230,836,094	122,088,036
20. Excess (Shortage) of Revenues & Financing Sources Over Expenses	236,954,976	1,567,923,571
21. Net Position, Beginning Balance	100,254,800,758	0
22 Excess (Shortage) of Revenues & Financing Sources Over Total Expenses	6,118,882	1,417,936,423
23. Plus (Minus) Equity Transfers	(4,627,836,416)	100,667,603,274
24 Net Position, Ending Balance	95,633,083,224	102,085,539,697

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF CASH FLOWS
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	TOTAL DBOF 93	TOTAL DBOF 92
CASH FLOWS FROM OPERATING ACTIVITIES:		
1. Excess (Shortage) of Revenue & Financing Sources Over Total Expenses	6,118,879	1,445,835,535
ADJUSTMENTS AFFECTING CASH FLOW:		
2 Appropriations Expensed	(8,638,267,002)	(10,509,137,247)
3. Decrease (Increase) in Accounts Receivable	(70,638,662)	(1,532,094,846)
4. Decrease (Increase) in Loans Receivable	0	0
5. Decrease (Increase) in Other Assets	4,539,071,033	(1,907,181,593)
6 Increase (Decrease) in Accounts Payable	195,239,644	793,973,847
7. Increases (Decreases) in Other Liabilities	5,009,030,156	409,736,644
8. Depreciation & Amortization	990,005,535	789,707,784
9 Other Unfunded Expenses	(2,206,610,239)	1,911,400,136
10 Other Adjustments	(714,069,577)	499,430,884
11. Total Adjustments	(896,239,112)	(9,544,164,391)
12. Net Cash Provided (Used) by Operating Activities	(890,120,233)	(8,098,328,856)
Cash Flows from Non-Operating Activities:		
13 Proceeds from Sales of Investments	0	0
14 Proceeds from Sales of Property, Plant & Equipment	8,530,006	0
15. Purchases of Investments	0	0
16. Purchases of Property, Plant & Equipment	1,242,100,642	695,091,650
17. Net Cash Provided (Used) by Non-Operating Activities	(1,233,570,636)	(695,091,650)
Cash Provided (Used) by Financial Activities		
18 Appropriations (Current Warrants)	8,524,839,079	3,424,200,000
19 Add:		
a. Restorations	0	0
b. Transfers of Cash from Others(Note 4)	(2,635,200,122)	6,493,606,441
20. Deduct:		
a Withdrawals	0	0
b. Transfers of Cash to Others	3,092,304,823	2,623,296,344
21 Net Appropriations	2,797,334,134	7,294,510,097
22 Borrowing from the Public	0	0
23 Repayments on Loans to the Public	0	0
24. Borrowing from the Treasury & the Federal Financing Bank	0	0
25. Repayment on Loans from the Treasury & the Federal Financing Bank	0	1,527,883,970
26. Other Borrowing & Repayments	0	0
27. Net Cash Provided (Used) by Financing Activities	2,797,334,134	5,766,626,127
28 Net Cash Provided (Used) by Operating, Non-Operating & Financing Activities	673,643,264	(3,026,794,379)
29 Fund Balance with Treasury, Cash & Foreign Currency, Beginning	4,010,804,117	0
30. Fund Balance with Treasury, Cash & Foreign Currency, Ending	4,684,447,381	(3,026,794,379)
Supplemental Disclosure of Cash Flow Information:		
31 Total Interest Paid	0	0
Supplemental Schedule of Financing and Investing Activity:		
32. Property & Equipment Acquired Under Capital Lease Obligations	0	0
33. Property Acquired Under Lont-term Financing Arrangements	0	0
34 Other Exchanges of Noncash Assets or Liabilities	0	0

UNAUDITED

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF BUDGET & ACTUAL EXPENSES
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	BUDGET			ACTUAL
		OBLIGATIONS		
PROGRAM NAME (S)	RESOURCES	DIRECT	REIMBURSED	EXPENSES
ARMY	11,363,764,060	0	9,460,294,193	13,233,683,047
NAVY	27,581,664,161		23,199,324,521	27,018,961,049
AIR FORCE	16,445,143,236	176,417,820	13,907,780,369	11,965,260,079
DEFENSE AGENCIES	10,825,296,196	6,019,742	12,874,786,439	17,481,800,705
CISA & DITSO	1,614,500,688	0	1,797,044,367	1,608,946,698
DFAS FINANCIAL OPS	928,595,235	0	1,118,703,605	1,127,066,325
DECA	7,107,539,079	0	7,097,122,245	7,236,382,458
JOINT LOG CORP ACCT	457,874,408	0	440,179,374	29,637,640
US TRANS COMMAND	5,434,655,815	0	5,767,696,806	5,561,657,321
TECHNICAL INFO SERVICES	75,732,594	0	60,071,856	47,500,749
CORPORATE ACCOUNT	500	0	10,489,136	2,441,696
TOTALS	81,834,765,972	182,437,562	75,733,492,911	85,313,337,767

BUDGET RECONCILIATION	
A Total Expenses	85,313,337,767
B Add:	
(1) Capital Acquistions	751,953,281
(2) Loans Disbursed	0
(3) Other Expended Budget Authority	(2,930,600,881)
C Less:	
(1) Depreciation & Amortization	1,213,255,331
(2) Unfunded Annual Leave Expense	88,881,675
(3) Other Unfunded Expenses	6,091,212,104
D Expended Appropriations	75,741,341,057
E Less Reimbursements	36,875,469,203
F Expended Appropriations, Direct	38,865,871,854

DEFENSE BUSINESS OPERATIONS FUND

COMBINING STATEMENTS

31 MARCH 1994

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	DEPARTMENTAL	ARMY	NAVY	AIR FORCE	DEFENSE AGENCIES	CISA/ DITSO	DFAS FIN OPS	DECA
ASSETS								
1. FINANCIAL RESOURCES.								
a. Fund Balances with Treasury(Note 2)	593,657,664	1,553,090,651	1,892,196,894	1,359,116,980	1,043,713,353	(36,971,379)	(265,453,717)	(922,019,083)
b Cash		0	0	40,855	0	0	0	0
c. Foreign Currency		0	0	0	0	0	0	0
d. Other Nonetary Assets		0	0	0	0	0	0	0
e. Investments, Non-Federal		0	0	0	0	0	0	0
f. Accounts Receivable, Net-Non-Federal		4,897,757	75,558,373	134,548,215	121,218,706	758,322	.0	88,123,369
g. Inventories Held for Sale, Net		13,464,958,000	18,090,673,884	30,943,163,567	16,343,576,760	0	0	790,820,850
h. Loan Receivable, Net-Non-Federal		0	0	0	0	0	0	0
i Property Held for Sale		0	0	0	0	0	0	0
j. Other, Non-Federal		177,068	1,620,643,298	205,013,667	0	0	0	14,624,548
k. Intragovernmental Items:								
(1) Accounts Receivable, Federal		367,522,166	1,277,140,217	893,809,670	2,332,564,801	440,942,068	31,690,121	96,556,244
(2) Loans Receivable, Federal		0	0	0	0	0	0	0
(3) Investments, Federal		0	0	0	0	0	0	0
(4) Other, Federal		25,531,474	974,333,655	22,632,626	0	8,668,245	0	0
l. Total Financial Resources	593,657,664	15,436,177,116	24,130,546,321	33,558,325,980	19,841,073,620	413,397,256	(233,763,596)	68,105,928
2. Non-Financial Resources:								
a. Resources Transfer to Treasury	0	0	0	0	0	0	0	0
b. Advances and Prepayments, Non-Federal		6,897,250	532,737,770	30,662,279	291,116,675	115,503	2,680,184	204,241
c. Inventories Not Held for Sale		4,581,562,509	964,927,362	3,523,645,818	125,852,814	0	0	0
d. Property, Plant & Equipment, Net		1,974,889,408	5,693,072,480	1,500,281,155	196,254,634	170,555,899	117,715,946	474,035
e Other		1,640,091,000	101,658,621	0	95,557,539	0	47,232,922	0
f. Total Non-Financial Resources	0	8,205,440,167	7,292,396,233	5,054,589,252	708,781,662	170,671,402	167,629,052	678,276
3. Total Assets	593,657,664	23,641,617,283	31,422,942,554	38,612,915,232	20,549,855,282	584,068,658	(66,134,544)	68,784,204
LIABILITIES								
4. Funded Liabilities								
a. Accounts Payable, Non-Federal		603,345,693	2,713,460,566	969,492,693	542,555,097	367,488,081	1,996,409	774,048,581
b. Accrued Interest Payable		0	0	0	0	0	0	0
c. Accrued Payroll & Benefits		48,669,905	882,406,658	117,479,611	29,056,661	10,231,930	22,593,386	37,181,219
d. Accrued Entitlement Benefits		0	0	0	0	0	0	0
e Lease Liabilities		0	0	0	0	0	0	0
f Liabilities for Loan Guarantees		0	0	0	0	0	0	0
g Deferred Revenue-Non-Federal		27,941	17,225	22,516	0	0	0	0
h Pensions and Other Actuarial Liabilities		0	0	0	0	0	0	0
i. Other Funded Liabilities, Non-Federal		0	1,893,200	0	2,980,511	6,900,000	0	504
j. Intragovernmental Liabilities								
(1) Accounts Payable, Federal		705,504,917	1,766,607,769	210,190,532	966,956,968	18,960,576	0	426,798,106
(2) Debt		0	0	0	0	0	0	0
(3) Deferred Revenue (All G)		1,761,421,494	489,727,616	1,184,442,573	290,075,744	11,423	0	0
(4) Other Funded Liabilities, Federal		73,692,275	2,834,490,462	714,617,804	0	0	0	0
k Total Funded Liabilities	0	3,192,662,225	8,688,603,496	3,196,245,929	1,831,624,981	403,592,010	24,589,795	1,238,028,410
5. Unfunded Liabilities:								
a Accrued Leave		74,033,700	0	29,748,659	75,963,873	7,893,997	44,503,476	15,262,111
b Lease Liabilities		0	0	0	0	0	0	0
c Debt		0	0	0	0	0	0	0
d. Pensions & Other Actuarial Liabilities		0	0	506,756	0	0	0	0
e. Other Unfunded Liabilities		860,466,718	0	0	103,459,314	0	3,420,538	236,516
f. Total Unfunded Liabilities	0	934,500,418	0	30,255,415	179,423,187	7,893,997	47,924,014	15,498,627
6 Total Liabilities	0	4,127,162,643	8,688,603,496	3,226,501,344	2,011,048,168	411,486,007	72,513,809	1,253,527,037
NET POSITION								
7. Fund Balances:								
a. Revolving Fund Balances	593,657,664	20,433,642,934	22,734,339,059	35,416,669,304	18,718,230,300	180,476,648	(90,724,339)	(1,184,742,833)
b Trust Fund Balances		0	0	0	0	0	0	0
c. Appropriated Fund Balances		0	0	0	0	0	0	0
d Total Fund Balances	593,657,664	20,433,642,934	22,734,339,059	35,416,669,304	18,718,230,300	180,476,648	(90,724,339)	(1,184,742,833)
8 Less Future Funding Requirements	0	919,188,294	0	30,255,414	179,423,187	7,893,997	47,924,014	0
9 Net Position	593,657,664	19,514,454,640	22,734,339,059	35,386,413,890	18,538,807,113	172,582,651	(138,648,353)	(1,184,742,833)
10 Total Liabilities & Net Position	593,657,664	23,641,617,283	31,422,942,555	38,612,915,234	20,549,855,281	584,068,658	(66,134,544)	68,784,204

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	JOINT LOGISTICS CORPORATE ACCOUNT	TECH INFO SERVICES	CORPORATE ACCOUNT	US TRANS COMMAND	TOTAL
ASSETS					
1 FINANCIAL RESOURCES:					
a Fund Balances with Treasury (Note 2)	(243,954 744)	6 213 396	(1,038,680)	(294 144,607)	4,684,406,528
b Cash	0	0	0	0	40,855
c Foreign Currency	0	0	0	0	0
d Other Monetary Assets	0	0	0	0	0
e Investments, Non-Federal	0	0	0	0	0
f Accounts Receivable, Net-Non-Federal	0	282	7,939	31,478,513	456,591,476
g Inventories Held for Sale, Net	0	0	0	0	79,653 193,061
h Loan Receivable, Net-Non-Federal	0	0	0	0	0
i Property Held for Sale	0	0	0	0	0
j Other, Non-Federal	0	0	0	0	2 040,458,781
k Intragovernmental Items:			0		0
(1) Accounts Receivable, Federal	404 738	52,939,792	0	872 575,169	6 366,145,184
(2) Loans Receivable, Federal	0	0	0	0	0
(3) Investments, Federal	0	0	0	0	0
(4) Other Federal	0	0	0	1,799,011	1,032,965,011
l. Total Financial Resources	(243,550 008)	59 153 470	(1,030 741)	611,707,886	94 233 800 896
2 Non-Financial Resources.					
a Resources Transfer to Treasury	0	0	0	0	0
b Advances and Prepayments, Non-Federal	0	(28,640)	(476)	70,316 508	936 701,294
c Inventories Not Held for Sale	0	0	0	40,468,272	9,236,456,775
d Property, Plant & Equipment, Net	266,392,049	3,048 145	0	653,139,138	10 575,822,889
e Other	0	0	0	78,592,736	1,963 132,818
f. Total Non-Financial Resources	266 392,049	3 019 505	(476)	842,516,654	22,712,113,776
3 Total Assets	22,842,041	62,172,975	(1,031,217)	1,454,224,540	116,945,914,672
LIABILITIES					
4 Funded Liabilities					
a Accounts Payable, Non-Federal	0	17 456,136	1 185 066	202,945,913	6,193 974 435
b Accrued Interest Payable	0	0	0	0	0
c Accrued Payroll & Benefits	2,457,000	250,911	33,767	41,246 035	1,191 607 083
d Accrued Entitlement Benefits	0	0	0	0	0
e Lease Liabilities	0	0	0	0	0
f Liabilities for Loan Guarantees	0	0	0	0	0
g Deferred Revenue-Non-Federal	0	0	0	8,638,236	8 705 918
h Pensions and Other Actuarial Liabilities	0	0	0	0	0
i Other Funded Liabilities, Non-Federal	0	0	0	0	11,774,215
j Intragovernmental Liabilities					0
(1) Accounts Payable Federal	32 895 589	310 161	12 222	399,312,702	4,527,549 542
(2) Debt	0	0	0	0	0
(3) Deferred Revenue (All G)	0	0	0	0	3 725,676 850
(4) Other Funded Liabilities Federal	0	0	0	803,890,800	4,426,691,341
k Total Funded Liabilities	35 352 589	18,017 208	1,231,055	1 456,033,686	20,085,981,384
5 Unfunded Liabilities:					
a Accrued Leave	0	982 672	178 923	9 566 898	258,134,309
b Lease Liabilities	0	0	0	0	0
c Debt	0	0	0	0	0
d Pensions & Other Actuarial Liabilities	0	0	0	415 179	921,935
e Other Unfunded Liabilities	0	0	0	0	967,583,086
f Total Unfunded Liabilities	0	982 672	178 923	9,982,077	1,226,639,330
6. Total Liabilities	35,352 589	18 999,880	1 409,978	1,466,015,763	21 312 620 714
NET POSITION					
7 Fund Balances:					
a Revolving Fund Balances	(12 510 548)	44 155,767	(2 262,273)	(1 809 146)	96 829 122 537
b Trust Fund Balances	0	0	0	0	0
c Appropriated Fund Balances	0	0	0	0	0
d Total Fund Balances	(12 510 548)	44,155 767	(2 262 273)	(1,809 146)	96 829,122 537
8 Less Future Funding Requirements	0	982 672	178,923	9 982,077	1,195,828,578
9 Net Position	(12 510 548)	43,173 095	(2,441 196)	(11 791,223)	95,633,293 959
10 Total Liabilities & Net Position	22,842,041	62,172,975	(1,031,218)	1,454,224,540	116,945,914,673

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

REVENUES & FINANCING SOURCES	DEPARTMENTAL	ARMY	NAVY	AIR FORCE	DEFENSE AGENCIES	CISA/ DITSO	DFAS FIN OPS	DECA
1. Appropriated Expensed	1,417,300,000	0	0	0	0	0	0	0
2. Revenues from Sales of Goods								
a. To the Public	0	19,611,846	311,637,051	108,380,036	202,723,670	446,760	0	5,777,059,009
b. Intragovernmental	0	9,988,722,705	24,782,802,224	12,032,045,997	13,508,514,915	1,539,958,348	942,540,999	198,978,229
3. Interest & Penalties, Non-Federal	0	0	0	0	0	0	0	0
4. Interest, Federal	0	0	0	0	0	0	0	0
5. Taxes	0	0	0	0	0	0	0	0
6. Other Revenues & Financing Sources	0	3,907,531,978	4,194,366,456	114,448,504	56,269,320	8,742	0	39,296
7. Less: Taxes & Receipts Returned to the Treasury	0	0	0	0	0	0	0	0
8. Total Revenues & Financing Sources	1,417,300,000	13,915,866,529	29,288,805,731	12,252,854,537	13,767,507,905	1,540,413,850	942,540,999	5,976,074,534
EXPENSES								
9. Program or Operation Expenses (Note 3)	(893,088,000)	0	2,251,829,332	0	4,143,268,010	290,313,073	1,052,210,959	1,382,755
10. Cost of Goods Sold or Services Sold								
a. To the Public	0	26,922,833	47,587,365	0	210,641,667	116,533,405	0	4,759,076,968
b Intragovernmental	0	13,115,614,145	24,223,091,519	10,558,453,470	12,615,623,823	1,164,737,116	0	2,398,569,455
11 Depreciation and Amortization	0	80,000,000	495,959,048	227,114,184	37,613,706	15,765,371	37,200,857	0
12 Bad Debts & Write-offs	0	0	0	18,754,912	0	0	0	0
13. Interest		0	0					
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0	0	0	0	0
b. Federal Securities	0	0	0	0	0	0	0	0
c. Other	0	0	0	136,695	0	0	9,155,431	3,414,567
14. Other Expenses	0	11,151,069	493,766	1,162,800,836	474,253,298	1,597,733	28,499,077	0
15. Total Expenses	(893,088,000)	13,233,688,047	27,018,961,050	11,965,260,079	17,481,800,706	1,608,946,698	1,127,066,324	7,162,423,745
16. Excess (Shortage) of revenues & Financing Sources over Total Expenses Before Adjustments	2,310,388,000	682,178,482	2,269,844,681	287,594,458	(3,714,292,801)	(68,532,848)	(184,525,325)	(1,186,349,211)
17. Plus (Minus) Adjustments:								
a. Extraordinary Items	0	0	153,516,821	(3,345,098,946)	1,109,182,379	0	0	62,656,784
b Prior Period Adjustments	0	11,999,630	124,675,609	0	1,889,686,235	(150,626)	7,592,165	(58,543,256)
18 Excess (Shortage) of Revenues & Financing Sources over Total Expenses	2,310,388,000	694,178,112	2,548,037,111	(3,057,504,488)	(715,424,187)	(68,683,474)	(176,933,160)	(1,182,235,683)
19 Plus. Unfunded Expenses	0	9,848,758	0	0	179,423,187	7,893,997	47,924,014	(15,415,457)
20 Excess (Shortage) of Revenues & Financing Sources Over Expenses	2,310,388,000	704,026,870	2,548,037,111	(3,057,504,488)	(536,001,000)	(60,789,477)	(129,009,146)	(1,197,651,140)
21 Net Position, Beginning Balance	6,645,976,731	17,341,065,126	23,389,572,313	41,111,557,818	11,648,675,374	230,118,280	162,751,318	(314,547,105)
22 Excess (Shortage) of Revenues & Financing Sources Over Total Expenses	2,310,388,000	694,178,112	2,548,037,111	(3,057,504,488)	(715,424,187)	(68,683,474)	(176,933,160)	(1,182,235,683)
23 Plus (Minus) Equity Transfers	(8,362,705,067)	1,479,211,402	(3,203,481,101)	(2,667,639,442)	7,607,555,926	5,147,845	(124,466,508)	312,039,956
24 Net Position, Ending Balance	593,657,664	19,514,454,640	22,734,128,323	35,386,413,888	18,536,807,113	172,582,651	(138,648,352)	(1,184,742,832)

UNAUDITED

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	JOINT LOGISTICS CORPORATE ACCOUNT	TECH INFO SERVICES	CORPORATE ACCOUNT	US TRANS COMMAND	TOTAL
REVENUES & FINANCING SOURCES					
1. Appropriated Expensed	0	0	0	0	1,417,300,000
2 Revenues from Sales of Goods					
a. To the Public	0	0	0	0	8,417,838,372
b. Intragovernmental	35,434	70,129,797	500	5,206,397,346	68,268,124,494
3. Interest & Penalties, Non-Federal	0	0	0	0	0
4 Interest, Federal	0	0	0	0	0
5. Taxes	0	0	0	0	0
6. Other Revenues & Financing Sources	0	0	0	0	6,274,664,296
7. Less: Taxes & Receipts Returned to the Treasury	0	0	0	0	0
8. Total Revenues & Financing Sources	35,434	70,129,797	500	5,206,397,346	84,377,927,162
EXPENSES					
9 Program or Operation Expenses (Note 3)	0	46,581,080	2,262,773	0	6,894,741,962
10. Cost of Goods Sold or Services Sold					
a. To the Public	0	0	0	0	5,180,762,458
b. Intragovernmental	29,837,640	0	0	5,468,940,037	69,592,867,205
11. Depreciation and Amortization	0	919,669	0	95,105,964	969,678,621
12. Bad Debts & Write-offs	0	0	0	5,210,651	23,985,763
13. Interest					
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0	0
b. Federal Securities	0	0	0	0	0
c. Other	0	0	0	0	12,706,693
14. Other Expenses	0	0	178,923	(7,599,551)	1,671,375,153
15. Total Expenses	29,837,640	47,500,749	2,441,696	5,561,657,321	84,346,298,055
16. Excess (Shortage) of revenues & Financing Sources over Total Expenses Before Adjustments	(29,602,206)	22,629,048	(2,441,196)	(355,259,875)	31,629,107
17 Plus (Minus) Adjustments:					
a. Extraordinary Items	0	0	0	0	(2,019,743,162)
b Prior Period Adjustments	0	(12,122,120)	0	31,095,100	1,994,232,937
18. Excess (Shortage) of Revenues & Financing Sources over Total Expenses	(29,602,206)	10,506,928	(2,441,196)	(324,164,875)	6,118,882
19 Plus: Unfunded Expenses	0	982,672	178,923	0	230,836,094
20 Excess (Shortage) of Revenues & Financing Sources Over Expenses	(29,602,206)	11,489,600	(2,262,273)	(324,164,875)	236,954,976
21 Net Position, Beginning Balance	2,804,372	32,826,533	0	0	100,254,800,758
22 Excess (Shortage) of Revenues & Financing Sources Over Total Expenses	(29,602,206)	10,506,928	(2,441,196)	(324,164,875)	6,118,882
23 Plus (Minus) Equity Transfers	14,287,287	(160,366)	0	312,373,852	(4,627,836,416)
24 Net Position, Ending Balance	(12,510,547)	43,173,095	(2,441,196)	(11,791,223)	95,633,083,224

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF CASH FLOWS
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	DEPARTMENTAL	ARMY	NAVY	AIR FORCE	DEFENSE AGENCIES	CISA/ DITSO	DFAS FIN OPS	DECA
CASH FLOWS FROM OPERATING ACTIVITIES:								
1. Excess (Shortage) of Revenue & Financing Sources Over Total Expenses	2,310,366,000	694,178,112	2,548,037,110	(3,057,504,487)	(715,424,187)	(88,883,474)	(176,933,161)	(1,182,235,685)
ADJUSTMENTS AFFECTING CASH FLOW:								
2. Appropriations Expensed	(1,417,300,000)	0	0	0	0	0	0	(7,220,967,002)
3. Decrease (Increase) in Accounts Receivable		118,142,136	129,654,229	7,759,289	(52,892,882)	(97,518,733)	15,280,079	227,256,480
4. Decrease (Increase) in Loans Receivable		0	0	0	0	0	0	0
5. Decrease (Increase) in Other Assets		(2,008,391,528)	(73,471,503)	7,009,964,461	(321,060,361)	(84,120)	(2,104,263)	13,501,513
6. Increase (Decrease) in Accounts Payable		(220,534,565)	(168,659,780)	4,920,683	73,739,964	89,337,406	(91,426,295)	8,638,529
7. Increases (Decreases) in Other Liabilities		1,716,939,464	1,697,592,636	1,297,625,471	66,578,668	(3,904,262)	18,666,202	11,913,821
8 Depreciation & Amortization		60,000,000	495,958,664	227,114,164	37,813,708	15,765,371	37,200,857	126,878
9 Other Unfunded Expenses		9,848,758	(2,373,452,038)	0	104,344,605	8,421,077	28,499,077	15,415,457
10 Other Adjustments		1,154,378,247	(392,046,290)	(4,191,092,484)	1,932,733,817	49,422,695	2,318,132	97,065,881
11 Total Adjustments	(1,417,300,000)	850,382,532	(484,423,870)	4,356,311,804	1,841,457,757	81,441,414	8,451,769	(6,846,848,443)
12 Net Cash Provided (Used) by Operating Activities	893,066,000	1,544,560,644	2,063,613,240	1,298,807,317	1,126,033,570	(7,242,060)	(168,481,392)	(8,029,084,128)
Cash Flows from Non-Operating Activities:								
13. Proceeds from Sales of Investments	0	0	0	0	0	0	0	0
14. Proceeds from Sales of Property, Plant & Equipment	0	6,530,006	0	0	0	0	0	0
15 Purchases of Investments	0	0	0	0	0	0	0	0
16 Purchases of Property, Plant & Equipment	0	0	171,416,347	(60,323,010)	82,320,217	29,729,320	96,972,325	474,035
17 Net Cash Provided (Used) by Non-Operating Activities	0	6,530,006	(171,416,347)	60,323,010	(82,320,217)	(29,729,320)	(96,972,325)	(474,035)
Cash Provided (Used) by Financial Activities								
18 Appropriations (Current Warrants)	1,417,300,000	0	0	0	0	0	0	7,107,539,079
19. Add:								
a Restorations	0	0	0	0	0	0	0	0
b. Transfers of Cash from Others	(2,635,200,122)	0	0	0	0	0	0	0
20. Deduct:								
a Withdrawals	0	0	0	0	0	0	0	0
b Transfers of Cash to Others (Note 4)	5,727,504,945	(1,070,325,311)	272,182,279	(1,298,283,280)	(401,089,089)	50,413,177	120,954,990	(298,836,530)
21 Net Appropriations	(6,945,405,067)	1,070,325,311	(272,182,279)	1,298,283,280	401,089,089	(50,413,177)	(120,954,990)	7,406,375,609
22 Borrowing from the Public	0	0	0	0	0	0	0	0
23 Repayments on Loans to the Public	0	0	0	0	0	0	0	0
24 Borrowing from the Treasury & the Federal Financing Bank	0	0	0	0	0	0	0	0
25 Repayment on Loans from the Treasury & the Federal Financing Bank	0	0	0	0	0	0	0	0
26 Other Borrowing & Repayments	0	0	0	0	0	0	0	0
27 Net Cash Provided (Used) by Financing Activities	(6,945,405,067)	1,070,325,311	(272,182,279)	1,298,283,280	401,089,089	(50,413,177)	(120,954,990)	7,406,375,609
28 *Net Cash Provided (Used) by Operating, Non-Operating & Financing Activities*	(6,052,319,067)	2,623,415,961	1,620,034,614	2,655,393,587	1,444,802,442	(87,384,557)	(386,408,707)	(623,162,554)
29 Fund Balance with Treasury, Cash & Foreign Currency, Beginning	6,645,976,731	(1,070,325,311)	272,162,279	(1,296,235,753)	(401,089,089)	50,413,178	120,954,990	(298,836,530)
30 Fund Balance with Treasury, Cash & Foreign Currency, Ending	593,657,664	1,553,090,650	1,892,196,893	1,359,157,834	1,043,713,353	(36,971,379)	(265,453,717)	(922,019,084)
Supplemental Disclosure of Cash Flow Information:								
31 Total Interest Paid		0	0	0	0	0	9,155,431	3,414,567
Supplemental Schedule of Financing and Investing Activity:								
32 Property & Equipment Acquired Under Capital Lease Obligations		0	0	0	0	0	0	0
33 Property Acquired Under Lont-term Financing Arrangements		0	0	0	0	0	0	0
34 Other Exchanges of Noncash Assets or Liabilities		0	0	0	0	0	0	0

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF CASH FLOWS
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	JOINT LOGISTICS CORPORATE ACCOUNT	TECH INFO SERVICES	CORPORATE ACCOUNT	US TRANS COMMAND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:					
1 Excess (Shortage) of Revenue & Financing Sources Over Total Expenses	(29,602,206)	10,506,928	(2,441,198)	(324,184,875)	8,118,879
ADJUSTMENTS AFFECTING CASH FLOW:					
2. Appropriations Expensed	0	0	0	0	(8,838,267,002)
3 Decrease (Increase) in Accounts Receivable	7,262,421	(20,152,876)	(7,930)	(405,823,266)	(70,838,862)
4. Decrease (Increase) in Loans Receivable	0	0	0	0	0
5. Decrease (Increase) in Other Assets	18,384,548	26,516	478	(95,808,708)	4,539,071,033
6. Increase (Decrease) in Accounts Payable	25,955,543	18,681,908	1,197,269	455,190,771	195,239,844
7. Increases (Decreases) in Other Liabilities	2,457,000	75,352	33,767	1,031,619	5,009,030,158
8. Depreciation & Amortization	0	919,669	0	95,105,964	990,005,535
9 Other Unfunded Expenses	0	133,900	178,923	0	(2,206,610,239)
10 Other Adjustments	0	0	0	833,150,825	(714,069,577)
11. Total Adjustments	52,039,512	(2,313,310)	1,402,518	883,159,207	(898,239,112)
12. Net Cash Provided (Used) by Operating Activities	22,437,306	8,193,618	(1,038,680)	358,994,332	(890,120,233)
Cash Flows from Non-Operating Activities:					
13. Proceeds from Sales of Investments	0	0	0	0	0
14. Proceeds from Sales of Property, Plant & Equipment	0	0	0	0	8,530,006
15. Purchases of Investments	0	0	0	0	0
16. Purchases of Property, Plant & Equipment	266,392,049	1,980,222	0	653,139,136	1,242,100,843
17. Net Cash Provided (Used) by Non-Operating Activities	(266,392,049)	(1,980,222)	0	(653,139,136)	(1,233,570,837)
Cash Provided (Used) by Financial Activities					
18. Appropriations (Current Warrants)	0	0	0	0	8,524,839,079
19. Add:					
a Restorations	0	0	0	0	0
b. Transfers of Cash from Others	0	0	0	0	(2,635,200,122)
20. Deduct.					
a. Withdrawals	0	0	0	0	0
b Transfers of Cash to Others (Note 4)	(14,287,287)	2,070,909	0	0	3,092,304,823
21. Net Appropriations	14,287,287	(2,070,909)	0	0	2,797,334,134
22 Borrowing from the Public	0	0	0	0	0
23 Repayments on Loans to the Public	0	0	0	0	0
24. Borrowing from the Treasury & the Federal Financing Bank	0	0	0	0	0
25 Repayment on Loans from the Treasury & the Federal Financing Bank	0	0	0	0	0
26 Other Borrowing & Repayments	0	0	0	0	0
27 Net Cash Provided (Used) by Financing Activities	14,287,287	(2,070,909)	0	0	2,797,334,134
28 Net Cash Provided (Used) by Operating, Non-Operating & Financing Activities	(229,667,456)	4,142,487	(1,038,680)	(294,144,806)	673,643,264
29 Fund Balance with Treasury, Cash & Foreign Currency, Beginning	(14,287,287)	2,070,909	0	0	4,010,804,117
30 Fund Balance with Treasury, Cash & Foreigh Currency, Ending	(243,954,743)	6,213,396	(1,038,680)	(294,144,806)	4,684,447,381
Supplemental Disclosure of Cash Flow Information:					
31 Total Interest Paid	0	0	0	0	
Supplemental Schedule of Financing and Investing Activity:					
32 Property & Equipment Acquired Under Capital Lease Obligations	0	0	0	0	
33 Property Acquired Under Lont-term Financing Arrangements	0	0	0	0	
34 Other Exchanges of Noncash Assets or Liabilities	0	0	0	0	

DEPARTMENT/AGENCY: DEPARTMENT OF DEFENSE
REPORTING ENTITY: DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF BUDGET & ACTUAL EXPENSES
AS OF 30 SEPTEMBER 1993
($ IN DOLLARS)

	BUDGET			ACTUAL
		OBLIGATIONS		
PROGRAM NAME (S)	RESOURCES	DIRECT	REIMBURSED	EXPENSES
ARMY	11,363,764,060	0	9,460,294,193	13,233,683,047
NAVY	27,581,664,161		23,199,324,521	27,018,961,049
AIR FORCE	16,445,143,236	176,417,820	13,907,780,369	11,965,260,079
DEFENSE AGENCIES	10,825,296,196	6,019,742	12,874,786,439	17,481,800,705
CISA & DITSO	1,614,500,688	0	1,797,044,367	1,608,946,698
DFAS FINANCIAL OPS	928,595,235	0	1,118,703,605	1,127,066,325
DECA	7,107,539,079	0	7,097,122,245	7,236,382,458
JOINT LOG CORP ACCT	457,874,408	0	440,179,374	29,637,640
US TRANS COMMAND	5,434,655,815	0	5,767,696,806	5,561,657,321
TECHNICAL INFO SERVICES	75,732,594	0	60,071,856	47,500,749
CORPORATE ACCOUNT	500	0	10,489,136	2,441,696
TOTALS	81,834,765,972	182,437,562	75,733,492,911	85,313,337,767

BUDGET RECONCILIATION	
A. Total Expenses	85,313,337,767
B. Add:	
(1) Capital Acquistions	751,953,281
(2) Loans Disbursed	0
(3) Other Expended Budget Authority	(2,930,600,881)
C. Less:	
(1) Depreciation & Amortization	1,213,255,331
(2) Unfunded Annual Leave Expense	88,881,675
(3) Other Unfunded Expenses	6,091,212,104
D Expended Appropriations	75,741,341,057
E. Less Reimbursements	36,875,469,203
F Expended Appropriations, Direct	38,865,871,854

DEFENSE BUSINESS OPERATIONS FUND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department of Defense expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund (the Fund) on October 1, 1991. The Fund operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Fund builds on revolving fund principles previously used for industrial and commercial-type activities.

The establishment of the Fund did not change any previous organizational reporting structure or command authority relationship. It combined business activities under a single treasury code which permits consolidation of cash management while functional and cost management responsibilities remain with the Military Departments and Defense Agencies.

The primary goal of implementing the Fund is to provide a business management structure that encourages managers and employees of DoD support organizations to provide quality products or services at the lowest cost. A major feature of this business management structure is increased emphasis on business operations. This business operations structure identifies each business area, the products or services, and the total cost of operations within that business area.

The DBOF Principal and Combining Statements represent the overall activity of DoD Components and business areas within DoD Components that were previously managed using industrial or stock funds and a few additional Defense Agency activities that also lend themselves to a business management mechanism. These DoD Components have prepared CFO Financial Statements and have reported as separate DBOF reporting entities. Notes to the Principal Statements were included in each of these separate CFO Financial Statements.

B. Accounting Standards

These financial statements are presented in accordance with the accounting and reporting standards presented in Office of Management and Budget Bulletin 93-02 and supplemented by accounting policies of the Office of the Secretary of Defense (OSD) and the Department of Defense Accounting Manual (7220.9-M). To the extent that accounting issues are not provided in the preceding, the Defense Business Operations Fund follows guidance promulgated by GAO, the Department of the Treasury, or the Federal Accounting Standards Advisory Board (FASAB), as appropriate.

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C. Budgets and Budgetary Accounting

The Defense Business Operations Fund is financed through working capital revolving funds. Principal Statements within the DoD Components do not contain a true Fund Balance with Treasury, only net disbursements/collections for the applicable fiscal year.

D. Basis of Accounting

The basis of accounting for the DoD Components is discussed in the DoD Component CFO Financial Statements. At the departmental level, transactions are recorded when they occur. Receipt of appropriations or transfers to or from the DBOF are recorded in the month in which they occur. The net amount of undistributed net outlays, which is the difference between the net outlays reported to the U. S Treasury and reported by the DoD Components is reported monthly. For CFO reporting purposes, the amount of undistributed net outlay is recorded as an expense.

E. Revenues and Other Financing Sources

The DBOF receives congressional appropriations which are retained at the departmental level. Transfers of funds to or from the DBOF are also maintained at the departmental level. The revenues generated by sales of goods or services through a reimbursable order process are recorded and reported by the individual DoD Components.

F. Accounting for Intra-governmental Activities

Inter/intra-agency transactions and balances have, for the most part, not been eliminated in the Principal and Combining Statements because data elements resident in the DoD accounting systems have not been revised to identify those transactions within a department 97 (DoD) account. Sufficient detail information is not available in the standard DOD general ledger accounts to perform the elimination. No eliminations are reflected in the Combining Statements.

G. Funds with the U.S. Treasury and Cash

The DBOF Principal and Combining Statements present a full financial statement at the DoD level. The Business Fund cash account, general ledger accounts <u>1013</u> - <u>Funds With Treasury</u>, <u>1014</u> - <u>Undistributed Collections</u> and <u>1015</u> - <u>Undistributed Disbursements</u>, are held at the DoD level. The amount reported as Fund Balances with Treasury at the DoD Component and business area level represent the net of collections less disbursements for the applicable fiscal year.

H. Equity

Equity for activities consists of invested capital, donated material, contributed fixed assets, and cumulative result of

operations as presented in the DoD Component statements of financial position. Cumulative results of operations at the departmental level represents the excess of appropriations over expenses since inception of DBOF.

I. Comparative Data

Comparative data for FY 1993 and 1992 is presented.

Note 2. Fund Balances with Treasury

The DBOF Fund Balances with Treasury is $4,684,406,528 is shown in the Total column of the Combining Statements. At the DoD Component level, Fund Balances with Treasury represents the net of collections less disbursements for fiscal year 1993. At the Departmental level, Fund Balances with Treasury represents cumulative transactions recorded for the DBOF since inception except for the FY 1993 net of collections less disbursements reported for the DoD Components.

Note 3. Program or Operation Expenses.

The amount of Program or Operation Expenses represents the adjustment for undistributed net outlays at the departmental level and is computed as follows:

	Collections less Disbursements		
	CFO Statements	Report on Budget Execution	Difference
Army	$1,553,090,651	$1,542,251,860	$10,838,791
Navy	1,892,196,894	1,918,493,151	(26,296,257)
Air Force	1,359,116,980	1,358,466,861	650,119
CISA/DITSO	(36,971,379)	(87,390,308)	50,418,929
Financial Operations	(265,453,717)	(265,456,717)	3,000
U. S. Transportation Command	(294,144,807)	408,881,074	(703,025,881)
Departmental Undistributed			(101,851,015)
Total CFO Principal Statement Undistributed			($769,262,314)

The September 30, 1993, DD 1176, Report on Budget Execution, U. S. Transportation Command feeder report from the Military Sealift Command improperly included information on collections

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and disbursements related to FY's 1991 and 1992 in the value for FY 1993 net outlays. Net collections less disbursements of $717,889,710 applicable to those fiscal years were transferred to the DBOF departmental level after September 30, 1993, and excluded from the CFO statements U. S. Transportation Command feeder report for the Military Sealift Command.

In addition, the Program or Operation Expenses includes an adjustment of ($123.823.686) for the difference between the Air Force ending Fund Balances with Treasury for FY 1992 and the amount reported on the Air Force restated FY 1992 Fund Balances with Treasury reflected on the Statement of Cash Flows.

Note 4. Transfers of Cash from Others.

This is the amount reflected as Transfers of Cash to Others on the DoD Component DBOF statements.

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INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Consolidated Statement of Financial Position of the Defense Business Operations Fund for FY 1993

B. DATE Report Downloaded From the Internet: 03/20/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):
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D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 03/20/99

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